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Master Thesis

**Six years of free trade: What lessons could
the EU-Japan FTA draw from the Korean
experience?**

**6년 간의 자유무역:
EU-일본 FTA 사례에 적용 가능한 한국 FTA의 시사점**

February 2018

Graduate School of Seoul National University

International Commerce Major, GSIS

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Abstract

Six years of free trade: What lessons could the EU-Japan FTA draw from the Korean experience?

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The year 2017 marks the sixth anniversary of the EU's FTA with South Korea, which was hailed as a first step towards a renewal of Europe's involvement in Asia. This happened however against a backdrop of growing scepticism in the world towards globalization and liberalisation of trade, which prompts the question whether the EU's FTA negotiations with Japan will progress as smoothly as they did with Korea. The objective of this research is to draw lessons from the six-year-old EU-Korea FTA that can be applied to the EU-Japan FTA. This research offers a qualitative explanatory and comparative analysis that delivers insights into the background and contents of both FTAs, together with the goals and expectations of the parties involved. The supporting quantitative data is retrieved from online databases, including Eurostat, the IMF, OECD and WB. The results show that lessons can be learned on three distinct levels. First of all, with regards to the wider context wherein the FTAs take place, the rising scepticism against FTAs has led the EU to now incline more towards transparency than confidentiality. Secondly, regarding the content of the FTAs, both have largely similar outlines regarding tariff and NTB elimination and public procurement and services liberalisation. However, the EU-JP FTA is expected to have a more robust TSD chapter, and is likely to include an investment chapter as well as a dispute settlement system, unlike its predecessor. Finally, regarding the negotiation process, thanks to the increased transparency, the EU-JP FTA is expected to include more input from civil society and to be less influenced by private interests.

Keywords: EU-Korea FTA; EU-Japan FTA; trade liberalization; trade negotiations; bilateral trade; economic analysis

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국문 초록

대한민국과 유럽연합의 자유무역협정(FTA)은 유럽의 아시아 지역 참여를 높이는 첫 번째 발걸음이 되었고 당 FTA는 2017년에 6주년을 맞았다. 그러나 글로벌화와 자유 무역에 대한 회의론은 여전히 대두 되었으며, 유럽연합과 일본의 FTA 협상이 한국과 유럽연합의 FTA 협상처럼 순조롭게 이뤄질 것인지에 대한 의문 역시 제기 되었다. 이 논문의 목적은 한국과 EU의 6년간의 FTA를 통해 EU와 일본의 FTA의 사례에 적용 가능한 시사점을 연구하는 것이다. 이 연구는 두 FTA의 배경 및 내용, 관련 국가들이 가진 목표와 기대 등의 분석을 위해 정성적 분석과 비교분석 방법론을 활용하였으며, 정량적 분석을 위해 Eurostat, IMF, OECD 그리고 WB의 온라인 데이터베이스를 참고하였다. 연구 결과는 세 가지 측면에서 교훈을 시사한다. 첫째, FTA 체결의 광범위한 맥락에서, 글로벌화에 대해 제기된 회의론은 EU로 하여금 기밀성보다 투명성을 중시하게 하였다. 둘째, 내용적인 측면에서 두 FTA는 관세 및 비관세장벽(NTB) 철폐, 정부 조달과 공공서비스 자유화에 있어 높은 유사성을 지닌다. 그러나 EU-일본 FTA는 무역과 지속가능한 개발(TSD) 부분을 중점으로, 분쟁해결제도 및 투자 부분을 포함해 한국-EU FTA의 약점을 보완할 수 있을 것으로 기대된다. 마지막으로, 협상과정에 있어 강화된 투명성에 힘입어 EU-일본 FTA 협상의 과정은 시민사회의 참여를 증가 시키고 민간 기업들의 영향력을 줄이게 될 것이다.

주요 핵심 용어: 한국-EU FTA, EU-일본, 무역자유화, 무역협정, 양자무역, 경제분석

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Abbreviations & Explanations

BOT contracts	Built-Operate-Transfer (BOT) contracts
CGE model	Computable General Equilibrium model
DDA	Doha Development Agenda
EU	European Union
EU-JP FTA	EU-Japan Free Trade Agreement
EU-KR FTA	EU-Korea Free Trade Agreement
FTA	Free Trade Agreement
GATT	Non-Governmental Organization
GATS	Political Action Committee
GPA	Small and Medium-sized Enterprises
GI	Geographical Indications
GDP	Gross Domestic Product
GPA	Government Procurement Agreement
IPR	Intellectual Property Rights
MEP	Member of the European Parliament
MFN	Most Favoured Nation
NPE	Normative Power Europe
NTB	Non-Tariff Barrier
SME	Small and Medium-sized Enterprises
SPA	Strategic Partnership Agreement
TBT	Technical Barrier to Trade
TRIPS agreement	Agreement on Trade-Related Aspects of Intellectual Property Rights
TSD	Trade and Sustainable Development

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1. Introduction

From a geopolitical and economic perspective, the East Asian region has historically been of significant importance to the European Union (EU), and it has become increasingly more so in the past few years. The significance of East Asia is indicated by the following numbers: it has a population of around 1.6 billion and its aggregate nominal GDP amounts to 19 trillion US dollars in 2016, nearly 20% of the aggregate world GDP (IMF, n.d.).

Considering the magnitude of East Asia, the Council of the European Union (2012, p. 3) declared the establishment of strong and lasting ties with the region as one of its top priorities. According to the Council, the size and favourable growth prospects of many of the region's countries make it imperative for the EU to strive towards increased direct investments. This, in the hope that an increase in bilateral investments would lead to more intense economic interconnectedness and more diversified financial portfolios, which in turn might hedge the EU against future catastrophic economic downturns, the likes of which it has experienced in the wake of the 2008 Global Financial Recession. Although the impact of the Recession was felt globally, East Asia has proven to be one of the few regions to have spurred a swift economic recovery.

In particular, the rise and robustness of Japan and the republic of Korea have become a remarkable occurrence to reflect upon. The Financial Crisis did impact Japan's GDP and stock markets, yet according to Sato (2009, p. 287-288), the consequences have been less severe in comparison to the US and the EU. He explains that the difference lied within the Japanese financial system, which is inherently different from those of the US and EU. The Japanese financial institutions were namely less exposed to dubious Mortgage Backed Securities (MBS) and Collateralized Debt Obligations (CDO), which are some of the financial derivatives whose inadequately regulated markets caused the US housing bubble to burst and which consequently unleashed a liquidity crisis

worldwide. The Japanese financial institutions however, could rely on superior risk management practices than their American and European counterparts in the years leading up to the Recession, which helped reduce their exposure to the financial troubles in the other advanced economies. These sound risk management practices were a legacy from the Japanese banking crisis in the 1990s.

South Korea has also felt the consequences of the Recession. Spill-over effects took place within the country's economy, mainly as a consequence of a fall in capital inflows originating from advanced economies between 2008 and 2009, yet the country managed to weather the crisis more efficiently compared to how it fared in the gruelling Asian financial crisis of the preceding decade, which severely depreciated the Korean Won and almost pushed the country over the edge of economic collapse. Lim (2010) notes that, notwithstanding the fall in global demand during the Recession years, South Korea was still able to perform relatively well and succeeded in picking itself up and experience a swift economic recovery.

The dynamism of the East Asian countries to withstand the fallout of the Recession, a feat that the EU and US had great troubles in emulating, illustrates the reason why the EU seeks a rapprochement towards the region. The EU is undertaking different strategies towards building long-lasting ties with East Asia, and the one strategy closely related to this research, is to increase bilateral trade and investments in the region. The Council of the European Union (2012, p. 4) considers the establishment of Free Trade Agreements with the countries in the region as a necessary step towards reaching that grand objective. The EU hopes that fulfilling that objective will lead to an increase in prosperity on both sides.

The EU reached a trade agreement with South Korea in 2011, the EU-KR FTA, and is currently in the process of negotiating another trade agreement with Japan, the EU-JP FTA. These FTAs are unprecedented in scale for the negotiating parties and will have

long-lasting effects on the regions involved. As the EU-KR FTA has been into force for six years, it is essential to make a review of what the results have been in order to derive from it lessons that can be applied to the EU-JP FTA. The general research question of this research therefore endeavours to answer is: ***What lessons have we learned from the six-year old EU-KR FTA that can be applied to the EU-JP FTA?*** In terms of methodology, this de facto entails an exploratory research, while simultaneously bringing about an explanatory comparative research due to the inherent comparison between the two FTAs. Finally, this research classifies as a qualitative research that makes use of supporting quantitative elements.

This research is structured as follows. Part two provides an in-depth literature review that discusses the developments in the multilateral trade arena that lead the EU to pursue a path towards bilateral trade agreements, and also the EU's ideology that underlines its standpoints in trade negotiations, known as Normative Power Europe. The third part of this research provides an overview of the specific goals this research tries to accomplish and addresses the motivation behind it. It will also discuss the general research question together with the specific research questions, and the steps that need to be taken to answer these comprehensively.

The fourth part explains the methodology, which clarifies what kind of research this is and which strategy will be implemented and how the required data was collected. The fifth and sixth parts offer in-depth analyses on the EU-Korea and EU-Japan Free Trade Agreements respectively and form the core of this research. Afterwards, the seventh part offers a reflection on what we have learned from the EU-Korea agreement, and how these experiences offer valuable lessons for the trade agreement with Japan and all agreements beyond. Finally, this thesis ends with a conclusion that offers an overview of the deductions made out of this research and discusses its implications for future research.

2. Literature Review

2.1. The pursuit of Liberalised Trade and Free Trade Agreements

The complete liberalisation of trade between countries is widely seen by economists as the sole ultimate goal that needs to be attained in order to maximize global aggregate economic welfare. By definition, free trade consists of eliminating all barriers to trade. A foreign company should thereby have an equal competitive chance as a domestic company to sell its goods in that country's market, whereby the only differentiating factor would be their innovativeness and productive efficiency. A barrier to trade is thereby any government action that hinders the free flow of goods and services across borders.

Radcliffe (2017) identifies the following possible arguments a government might use to condone the imposition of trade barriers:

- a. The most obvious argument is *to protect domestic industries*, and thereby domestic employment, as the protection of local industries from foreign competition might stave off layoffs due to potential productivity inefficiencies. Yet this type of narrow-minded policy will likely cause inefficient businesses to remain operational, which will de facto prevent the aggregate welfare from reaching its potential.
- b. A second excuse governments tend to use to justify trade barriers, is *to protect the domestic consumers*. The main argument here is that an increase in imports will lead to an increase in dependency of a country's citizens to foreign goods. This is the reason why even advanced countries, like the EU, still impose protectionist measures to protect their agricultural sectors from cheaper imports.
- c. A third reason is most commonly used by developing countries: *the infant industry argument*. This is essentially a protectionist strategy in which a developing country's government attempts to accelerate the transition from a primary sector-based economy to a secondary sector-based one, in line with Allan Fisher's (1939, p. 24) three-sector theory. The way it does so is by

imposing taxes on all potential foreign rival goods that may compete with the domestic industries.

- d. Finally, Radcliffe (2017) also considers *retaliation* as a commonly used argument in favour of trade barriers. Retaliation can happen whenever a country accuses one of its trading partners of imposing a trade barrier, and as the name suggests, this leads the accusing country to impose its own trade barriers in retaliation. A plethora of examples of retaliatory measures can be found in contemporary international trade, and in which the World Trade Organisation (WTO) plays an essential role in mediating¹.

Each of these arguments run counter to the principles of free trade and perfect competition. Hirst (2010) argues that, although governments and lobby groups might possibly have arguments against free trade when their interests are at stake, these arguments remain by and large merely short-sighted and, in reality, solely benefit a select few rather than the overwhelming majority. The point here is that, when looking at the bigger picture, it has become apparent for economists that the benefits of free trade outweigh the benefits of protectionism in all of its forms.

2.2. Types of barriers to trade

Barriers to trade can come in different forms. The most common distinction is the one made between *tariffs* and *nontariff trade barriers*. First of all, tariffs are taxes enforced by a government on certain, if not all, imports, in order to give the domestic industry in question a competitive advantage over foreign competition, so as to protect the sales of a country's domestic goods and services. Tariffs can be imposed either as a fixed value, also known as *specific tariffs*, or on the basis of a percentage of the good's value, known as *ad valorem tariffs*.

¹ A back-and-forth between the US and the EU of imposing retaliatory trade measures has become quite prevalent in the past decades (cf. Champagne case, Airbus vs. Boeing dispute, GMO dispute, etc.).

Second of all, nontariff barriers (NTBs) are a more implicit way of putting restrictions on international trade. According to Krugman, Obstfeld and Melitz (2012, p. 193), contemporary governments prefer using this type of trade barriers over tariffs. While in this case, no direct taxes are levied to put a hamper on free trade, the effects of these trade barriers are equally potent. Furthermore, just as it was the case with tariffs, nontariff barriers also lead to a loss in economic welfare, either on the producers', consumers' or even the government's side, in either of the trading countries.

NTBs exist in various forms (Krugman et al., 2012, p. 193):

- a. import quotas: limit the quantity of goods coming in the country;
- b. voluntary export restraints: are levied by the exporting country, but are in reality made at the behest of the importing country²; and
- c. import licensing systems: allow only companies that possess licences issued by the government to acquire goods of which the imports are restricted.

Thirdly, there are also *Technical Barriers to Trade (TBTs)*, which are a subcategory of nontariff barriers, but deserve to be looked at more closely because of their importance. According to the WTO (n.d. a), these trade barriers are the resultants of technical regulations set up by governments. Yet setting up technical regulations is not inherently bad and are part of any government's responsibilities. Such regulations are namely necessary for consumer, environmental and national security protection. However, these regulations do become a problem when they are set up arbitrarily. That is to say, an endless mass of arbitrarily set-up regulations will put a heavy burden on exporters and might in that case be considered as a government's tool for indirect protectionism. Such excessive bureaucracy is also commonly known as *red tape*. That is why the detection and settlement of TBT-disputes has become an important part of the WTO's work.

² This is generally possible when it concerns a large and economically powerful importing country that has enough leverage to be able to force its trading partner to do its bidding

2.3. The progression from multilateral to regional and bilateral trade agreements

The WTO has encountered difficulties in furthering its multilateral trade reforms. It is namely due to the requirement of continually needing to reach a consensus among member states that progress has become stagnant and it appears that the limits to multilateral agreements have been reached with the Doha Development Agenda (DDA).

According to Bhandari (2012, p. 365), two main issues can be identified. The biggest issue is that a number of important member states, like the United States, China, and India, show a clear reluctance in liberalising certain sectors they deem important or politically sensitive, like agriculture and textiles (p. 367), while at the same time blaming each other for the deadlock in negotiations. The second issue is a flawed methodology. While the WTO tries to maintain its five principles during the set-up of its trade agreements, each of the 164 member states have their own interests and request compromises to safeguard these interests. This is what Bhandari calls a “cocktail approach” (p. 371), and allowing this causes member states to disregard the overarching benefits of global aggregate economic welfare, it overcomplicates the agreement and the solving of issues of contention gets delayed indefinitely (p. 373).

Irwin (2008) contends that, as a consequence of the breakdown of the DDA negotiations, governments have tried to circumvent the WTO by pursuing either intra-regional or bilateral Free Trade Agreements. The point is that these countries want to make progress in terms of international trade to boost their own exports, but on terms decided among themselves and of which the scope only reaches the parties involved. The benefit of this development is that it is another way to further the agenda of reducing trade barriers and promoting free trade between countries.

The establishment of FTAs also do not go against the MFN Treatment to which the WTO member states are legally bound. Articles XXIV of the GATT and Article V of the

GATS, for trade in goods and services respectively, authorize the member states to pursue bilateral or multilateral FTAs, and thereby grant more favourable trade conditions with their FTA-partner(s). This is only on the condition that the prospective FTA meets the stipulations delineated in the WTO-agreements (EFTA, n.d.).

2.4. The EU and FTAs: exploring Normative Power Europe

To understand now how the EU handles its FTA negotiations, its stance towards foreign policy should first be examined closely. The main views and objectives the EU has with regards to foreign relations are delineated in Article 21 TEU, which presents a number of values the EU associates itself with, among which are democracy, the rule of law and universal human rights. In the Article, the EU stresses the importance of respecting the United Nations Charter and International Law and it aims to build partnerships with countries and other third actors that share the same principles.

The EU takes these universal principles as the hallmarks of its organization, and puts them at the centre stage of its foreign policy by actively promoting them abroad. This led Manners (2002) to coin the term Normative Power Europe (NPE) (p. 238), since he saw the EU acting as a normative power outside of its borders, particularly in its pursuit of a global abolition of the death penalty (p.245-252). Manners defined Normative Power Europe as “The ability to shape conceptions of ‘normal’” (p. 239) and thereby looked at the EU’s international identity outside of the classical *civilian* versus *military* power paradigm that was prevalent at the time. As opposed to *Civilian* and *Military* Power Europe, which he defined as the ability to use civilian (e.g. economic) and military instruments respectively to attain its goals (p. 240), Manners was of the opinion that “the ability to define what passes for ‘normal’ in world politics is, ultimately, the greatest power of all” (p. 253).

According to Leeg (2014, p. 336), the EU’s International trade policy forms an important outlet through which it can promote its normative power globally. The EU has the benefit

of enjoying a more dominant position in most bilateral trade negotiations thanks to its large size and the economic clout that goes with it, whereas the same cannot be said for its negotiations within the WTO's multilateral framework. Leeg also argues that since the European Parliament needs to ratify the EU's FTAs, it has the leeway to push its normative agenda during the negotiations. As stated by Falke (2005, p. 8), an example of the EU's tendency to exert its normative power is first of all its decision in 1995 to include human rights and democracy clauses in all of its future agreements. Another example can be found in the EU's agenda for the DDA, which also included supplementary issues like environmental and labour issues, next to the usual trade-related issues.

Having traced back the EU's motivation to pursue bilateral trade negotiations, we now turn to the crux of this research, which is the EU's strong interest in establishing trade relations with the East Asian region. Keeping in mind the EU's focus on promoting its normative agenda while establishing trade agreements, it does not come as a surprise that the EU has been focussing more on the countries in East Asia, among which it can find the most common ground first in terms of its normative principles. These countries have been South Korea and Japan³.

2.5. Gazing towards Korea and Japan while dealing with internal disquietudes

On July 1, 2017, the Free Trade Agreement between the EU and its member states on the one hand, and the Republic of Korea on the other, will celebrate its sixth-year anniversary. The agreement was first provisionally put in place in 2011 and was formally ratified by all member states on December 13, 2015. According to the European Union (2011, p. 1), the agreement ushered in a new era of trade relations between the EU and South Korea and was a first step towards a renewal of the European involvement in Asia.

³ The formation of an FTA with China has definitely been brought up, but considering the greater gap in moral and political ideologies that needs to be bridged, China hasn't been on the top of the EU's priority list.

However, in the current international political environment, there seems to be a growing scepticism towards globalization and free trade in particular, which is becoming a serious impediment to the EU's goal of concluding free trade agreements with third countries. First of all, the United States, which traditionally spearheaded the movement towards trade liberalization and which is one of the EU's closest and most important allies, seems to be headed in an entirely different direction since early 2017 with the election of Donald Trump as President, whom is known to be an avid critic to free trade. As a case in point, one of the new President's first executive actions were the withdrawal of the US from the Trans-Pacific Partnership Agreement (TPP) and the taking of steps towards renegotiating the North American Free Trade Agreement (NAFTA). Directly related to the EU is the proposed Transatlantic Trade and Investment Partnership (TTIP) with the US, of which the negotiations have become all but frozen.

Second of all, closer to home and of considerable importance to the EU, are the recent developments across the English Channel. The United Kingdom intends to leave the EU as a consequence of the 'Brexit' referendum, which means that it will not only leave all free trade agreements between the EU and third countries, but it will more importantly also leave the European Single Market itself, which guarantees the free movement of goods, services, capital and labour between the member states. Putting a halt to the free movement of people was namely one of the key points of the Brexit Campaign, but a Brexit would de facto also mean a renegotiation of all of the UK's trade deals with the EU and third countries (Chapman & Rodionova, 2017).

Thirdly, the political environment on continental Europe has been experiencing similar surges in anti-free trade sentiment, where national opposition parties are gaining widespread support against the EU's proposed trade agreements with Canada (CETA), the United States (TTIP) and the multilateral Trade in Services Agreement (TiSA). A telling indicator of Euroscepticism in Europe is embodied by the rise of extreme right

political parties in the EU's founding member states, like France and the Netherlands, where these parties came quite close to winning their respective national elections in early 2017. Carter (2016) asserts that, what these parties have in common next to being anti-euro and anti-immigration, is their outspoken fear and disdain towards the EU's free trade agreements, like the ones mentioned earlier. Consequently, it appears that the path towards promoting free trade in the world is being covered by an increasing number of hurdles that are becoming ever more cumbersome.

These are however, recent developments. During its inception and negotiation process, the EU-Korea FTA was widely seen as a welcome step towards closer ties between the EU and South Korea and trade facilitation between the two regions was regarded as being potentially beneficial to both parties. The EU-KR FTA was also hailed as the standard bearer of "a new generation of free trade agreements" (European Union, 2011, p. 3) during its inauguration in 2011 and was regarded to become an example and confirmation of the merits of market liberalisation.

This leads one to ask, what has happened? Has the EU-KR FTA not become an example for European policy makers and citizens to believe in the merits of FTAs? How did the FTA turn out for both parties? Have there been similar outcomes, or have the results been asymmetric, with one party benefitting more over the other? The answers to these questions will play an important role in the future of the EU's international trade policy, and especially its role in East Asia.

3. Purpose of the research and research questions

3.1. Purpose of the research

The EU is currently in the process of negotiating FTAs with several other countries and one might wonder if these negotiations will go as easy as they went with the EU-KR FTA, due to both the internal and external pressures alluded to in the previous section. The internal pressures coming from domestic anti-free trade movements and the external pressures coming from similar movements within the trade partners-to-be. The next Free Trade Agreement in line is the EU-Japan FTA⁴, which is currently being negotiated and on which this research will put special focus on next to the EU-KR FTA.

Considering the aforementioned growing scepticism towards free trade, it is of essential importance to analyse how the EU-JP FTA is progressing, where it is headed, what lessons can be learned from the EU-KR FTA that can be applied to this FTA and which areas or key points the negotiating parties need to improve upon. In essence, the EU's FTA with South Korea could act as a standard to objectively identify and evaluate the potential merits and shortcomings of trade liberalisation with third countries in general, and with Japan in particular.

Japan may be different from South Korea in certain aspects, but they share many points in common. First of all, both are situated in East Asia, the importance of which was discussed in the introduction of this research, and both are situated at an almost equal distance from the EU. The reason why geographical distance is worthy of note is because, in accordance with the Gravity Model of International Trade, the distance between trade partners is an important determinant in predicting bilateral trade flows next to the sizes of the economies involved. Second of all, both countries are highly developed. The nominal GDP per capita of Japan and South Korea in 2015 were around

⁴ Also widely known as the EU-Japan Economic Partnership Agreement (EPA).

\$34,000 and \$27,000 respectively, which are close to the European Union's average of \$32,000 (World Bank, 2015).

A third point in common is that they share a number of norms and principles, especially with regards to democracy, respect for human rights and the rule of law. As has been alluded to in section 2.4., norms play an important role in the EU's foreign relations. These commonalities in norms make South Korea and Japan very approachable for the EU. It turns them into the most obvious choices for the EU's renewed engagement in Asia, since boosting (trade) relations with nations that share 'common values' is easier to justify to the electorate than with an authoritarian regime for instance. Finally, the EU is in fact currently pursuing purely bilateral trade agreements in Asia since the breakdown of the interregional trade negotiations with ASEAN showed that multilateral trade agreements are much more difficult to realize. All in all, although there may be differences between Japan and South Korea, these differences remain marginal to the matter at hand and do not impede an objective comparison with regards to FTAs with the EU.

3.2. Research questions

Having established the motivation for choosing South Korea and Japan as important trading partners, and having explained why the FTA with South Korea can be used to evaluate the planned EU-JP FTA, we should now ask the question whether the EU-KR FTA has been as successful as it was initially planned out to be. If this were the case, then this FTA may be considered as a standard for future trade agreements, and as an important example of how trade liberalisation leads to welfare increases for the parties involved. This leads us to the general research question of this thesis: ***What lessons have we learned from the six-year-old EU-KR FTA that can be applied to the EU-JP FTA?***

To provide an answer to the general research question, each of the following specific research questions need to be addressed:

1. *What were the preliminary economic effects of the EU-KR FTA on the bilateral trade between both partners, between 2011 and 2017?*
2. *What are currently the main points of contention and how do the EU and South Korea respond to them?*
3. *What similarities does the EU-JP FTA have with the EU-KR FTA?*
4. *Which positive aspects of the EU-KR FTA can be applied to the EU-JP FTA and which negative aspects should be avoided?*

This research essentially consists of a twofold analysis: the first part is an analysis on the preliminary results of the EU-KR FTA. This analysis should take into account the economic results of the FTA in both regions and the possible points of contention that have arisen out of the trade agreement. The first two specific research questions are tailored to address this first part. The second part of this research will then zoom in on the EU-JP FTA, how negotiations are progressing and which lessons from part 1 can be applied to this case. The specific timeframe of the analysis on the EU-KR FTA will start from its inauguration in 2011 until the first half of 2017. Such a timeframe is chosen in order to make an as accurate assessment of the current state of the FTA as possible. For consistency, the same timeframe is used for Japan with regards to both trade data and data on trade policy and negotiations.

The motivation behind conducting such a research is that, despite the abundance of research on the EU-KR FTA or the EU-JP FTA individually, there is no research available today that specifically attempts to determine the parallels between these two FTAs and which lessons one could learn from the other, especially in light of the current changing political environment and sentiment around the world. Lastly, it is also recommended for a scholar from the EU who studies in East Asia to utilize the knowledge and different perspectives accessible to him from both regions and to attempt to offer research synergies.

4. Methodology

4.1. Objectives of this study

This Master's thesis classifies as an **exploratory** research. Saunders, Lewis, Thornhill, Booij and Verckens (2011) define this type of research as a means to better understand a certain phenomenon and to gain insights into it, which fits with the objective of analysing the EU's FTAs with South Korea and Japan and whether or not lessons could be learned from the former that can be applied to the latter. In light of how the specific research questions are formulated, this research also classifies as an explanatory **comparative** research. In order to answer the specific research questions, this research namely focusses on explaining the negotiations and the outcomes (both the good and bad aspects) of the bilateral trade agreement with South Korea on the one hand, and on comparing it with how the agreement with Japan is being set up.

Finally, this is also a **fundamental** research (Saunders et al., 2011), since it aims to answer whether the EU-KR FTA really is an example and confirmation of the merits of market liberalisation and whether this is the path the EU should (or could) continue to follow. At the end of this research, fundamental lessons are drawn on the bilateral trade agreements of the EU, especially towards promoting trade liberalisation in East Asia, and on all the different kinds of problems that can be encountered thereby. The general benefit of such a case study in the long term is that it allows to learn from previously made mistakes in the hope that these won't be repeated in the future.

4.2. Qualitative research with supporting quantitative elements

This thesis is **qualitative** in character since it mainly employs qualitative sources that offer insights into the background of both FTAs, the goals that the parties involved have set therewith⁵ and the initial expectations of these FTAs. Then, the EU's policy directives related to its international trade policy are examined to understand what objectives it had

⁵ The removal of tariffs and non-tariff barriers, the liberalisation of trade in services, etc.

for these countries. In addition, **quantitative** data with regards to trade with South Korea and Japan is consulted in order to deliver objective facts and figures on the Balance of Payments of all parties involved and what facets of the EU-approach could be modified. This includes import and export data and sectoral data. The quantitative data-analysis and presentation is made via the data-processing tool MS Excel.

4.3. Strategy

The strategy this research adopts is an archival research. According to Saunders et al. (2011), this strategy is especially useful with research questions on past events and changes over time. This research examines the evolution of the trade policies of the EU towards South Korea and Japan, going on from the inception of the EU-KR FTA up to mid-2017.

That is why information on the following is analysed:

- How the EU's trade policy is defined towards South Korea and Japan;
- what principles it put forward in its policies;
- how the negotiations for the EU-KR FTA evolved and if the results have been as expected;
- what the good and bad aspects have been of the EU-KR FTA up to now;
- how the negotiations for the EU-JP FTA are progressing;
- what lessons can be taken from the EU-KR FTA to apply in the EU-JP FTA;
- what the future outlook is for the EU in establishing FTAs in Asia.

4.4. List of sources

The qualitative sources this research uses range from official EU documents, dialogues with Korean and Japanese authorities, agreements, statements by policy makers from both sides, to scholarly literature from verified databases. These originate from university libraries and verified online databases. Quantitative data is consulted from the online databases of the OECD, World Bank and IMF.

5. The EU-Korea Free Trade Agreement

To provide an answer to the general research question on ‘What lessons can be learned from the six-year old EU-KR FTA that can be applied to the EU-JP FTA?’, this chapter deals with the first part of this research’s twofold analysis, namely the analysis on the preliminary results of the EU-KR FTA. This chapter will therefore tackle specific research questions 1 and 2:

- 1. What were the preliminary economic effects of the EU-KR FTA on the bilateral trade between both partners, between 2011 and 2017?*
- 2. What are currently the main points of tension and how do the EU and KR respond to them?*

5.1. South Korea as a trading partner

South Korea is called one of the Four Asian Tigers for a good reason. Its impressive growth and equally impressive integration in the world economy has transformed this East Asian country into one of the world’s most advanced economies. The Korean economy experienced an extraordinary growth spurt over the past decades by which its nominal GDP per capita rose to over 27.5 thousand dollars (World Bank, 2016a), while it was still situated at the level of an average developing country in the 1960s (World Bank, 2017). By 2016, South Korea rose to become the 11th largest economy in the world, between Canada and the Russian Federation (World Bank, 2016b), making it one of the world’s most eligible trading partners.

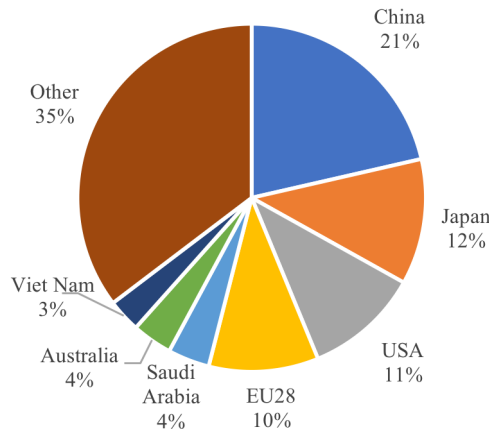
The Korean Republic has a highly-developed economy to which the primary sector only contributes 2.2% and of which more than 59% of the economy is based on services (CIA, 2017). According to the OECD (2017a), the country experienced a moderate annual growth in GDP of around 3% between 2011 and 2016, and the expected growth for 2017 is 2.6%. Noteworthy is the country’s unemployment rate, which is on average lower than most of the other developed countries, including the US and in the EU. The average

unemployment rate fluctuated steadily around 3.5% in the considered timeframe and is expected to not deviate much from it in the near-future.

However, the situation in South Korea is far from being impeccable. Considering its high developmental state, South Korea has come to experience socio-economic issues common to advanced economies. According to the OECD (2011), some of the most important challenges the country is facing are a dualistic labour market where cross-overs between fixed and flexible workers are difficult (p. 3), an ageing population (p. 6) and a high dependency on exports that makes it vulnerable to exogenous financial disturbances (p. 55).

South Korea has striven quite proactively towards reaching trade agreements with its most important trade partners. The FTA with the EU came into force in July 2011 and was finally ratified by all parties in December 2015. This agreement was also followed by an FTA with the US in 2012. Negotiations are also currently taking place with various Asian countries, the most ambitious of which is a possible trilateral trade agreement with Japan and China. However, the negotiations for this agreement have turned out to be quite difficult due to the recent rise in territorial disputes with both of these countries.

KR top import partners (2016)



KR top export partners (2016)

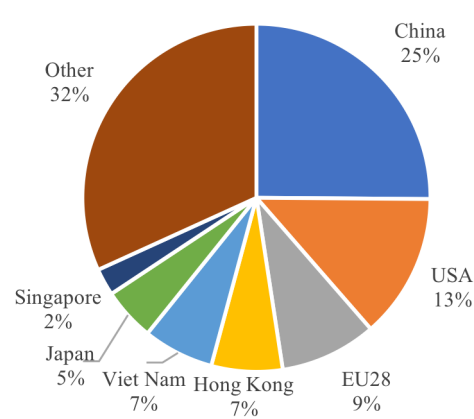


Figure 1: Most important trade partners of South Korea. (UN Comtrade, 2017; European Commission, 2017a)

Figure 1 shows that the European Union is both one of the top import and export partners of South Korea. The EU has turned out to be an even more important export destination than neighbouring Japan, taking up around 9% of Korea's total exports. Furthermore, the EU takes up over 10% of all imports coming into the East Asian nation, thereby roughly equalling the US imports.

5.2. Goals of the EU-Korea FTA Negotiations

5.2.1. Tariffs

The EU-Korea Free Trade Agreement is a trade agreement unprecedented in scale for both parties. It is the EU's very first trade agreement with an (East) Asian country, making South Korea its clear first choice for its increased involvement in Asia, and it is simultaneously the most ambitious trade agreement the EU has reached to date in terms of scope.

Before the EU-KR FTA, the EU and South Korea had already established the Agreement on Cooperation and Mutual Administrative Assistance in Customs Matters in 1997 and the Framework Agreement on Trade and Cooperation in 2001. The former being an agreement on the harmonization of competition policy and the latter being an impetus to enhance cooperation in several industries, going from agriculture, transportation and energy to industrial, environmental and cultural cooperation (European Commission, 1997; EEAS, 2001). These agreements can be considered as having laid the groundwork for the future EU-KR FTA.

The purpose of this trade agreement is to generate economic growth and new jobs by liberalising and stimulating trade in goods between the regions in accordance to Article XXIV of the GATT 1994. With the exception of a limited number of agricultural goods, the agreement abolished tariffs on virtually the entire trade in goods between the regions. In addition, the agreement also tackles NTBs and contains special provisions with regards to the trade in services, investments, fair competition, intellectual property rights, transparency and sustainable development⁶.

5.2.2. Non-Tariff Barriers

The EU and South Korea agreed to make a concerted effort towards the elimination of NTBs. The following is an overview of the industries involved:

a. Automotive sector:

First of all, with the FTA, the 8% tariff that European imported cars used to be subject to in South Korea has officially been removed (European Commission, 2010, p. 2). Secondly, the FTA obligates South Korea to use the standards laid out by the United Nations Economic Commission for Europe (UNECE) for all

⁶ In line with the principles of the WTO discussed in section 1.3.2.

of its technical regulations⁷ (EEAS, 2011, p. 24). This implies that cars approved for sale in Europe will henceforth also be approved in South Korea. This came as a response to the difficulties certain European car brands experienced when entering the Korean market and will guarantee the adherence to the principle of fair competition.

b. Electronics and electrical devices sector:

The certification system in the electronics and electrical devices sector was an equally cumbersome trade barrier. While manufacturers in both regions were already required to test their products domestically before being able to sell them at home, the same products had to undergo similar tests again in the partner countries before being allowed to enter the market. Now, devices from both regions are subject to the same regulations. According to the European Commission (2010, p. 2), thanks to the FTA both regions will subject their products to harmonized and internationally-applied standards⁸, thereby getting rid of costly duplicate procedures and exponentially streamlining the sector's bilateral trade (EEAS, 2011, p. 73). Furthermore, it also removes the need for third-party certifications.

c. Pharmaceutical sector:

The pharmaceutical sector in the EU employs more than 1 million people, making it a high-priority interest for the Union. The issue here was that the Korean government determines the price-setting of these products and the industry had raised concerns over the lack of transparency in this process. In

⁷ The UNECE is a regional commission of the United Nations that aims to improve economic integration between its member states. It is a normative multilateral platform that specialises in setting up standards and best practices based on the outcomes of UN Conferences.

⁸ Depending on the product, the international standards in question are set up by the International Organisation for Standardization (ISO), the International Electrotechnical Commission (IEC) and the International Telecommunication Union (ITU).

addition, the process of how to challenge legal decisions made by the Korean government lacked sufficient clarity, making it an important NTB. The FTA thereby introduces binding regulations on both the price-setting procedures and on how to tackle transparency issues, while at the same time determining a court to handle legal challenges in this regard (European Commission, 2010, p.2).

d. Government procurement:

Government procurements represent on average around 15% of the GDP of OECD countries and this percentage is even higher in emerging economies. The FTA goes more into depth than the WTO's plurilateral Government Procurement Agreement (GPA), to which both the EU and South Korea adhere to (WTO, n.d. b). All procurement options in Korea will be open to competition from the EU and vice-versa. Built-Operate-Transfer (BOT) contracts⁹ will henceforth also be part of the procurement options and of significant importance for European suppliers, which are in a leading position globally (European Commission, 2010, p. 3).

e. Intellectual property rights (IPRs):

The EU-KR FTA builds on the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). It provides a legal framework to protect intellectual property rights and sets out precise rules that ensure the long-term protection of IPRs. The FTA stipulates that original works will remain under copyright protection until 70 years after the author's decease and the registration of trademarks will also be subject to the same rules in both regions. In addition, the sensitive information that pharmaceutical companies are required to share with foreign authorities in order to be able to enter their markets will also be protected. Furthermore, the FTA will also protect Geographical Indications

⁹ A BOT contract is contract whereby a private company constructs an infrastructure and later transfers the ownership to the government.

(GI)¹⁰ via the enforcement of administrative and penal procedures, in order to prevent the abuse of prestigious brands in the partner country (EEAS, 2011, p. 109; European Commission, 2010, p. 3).

f. Agricultural sector:

According to EEAS (2011, pp. 133-135), both partners will work closely on minimising the adverse effects of sanitary and phytosanitary (SPS) regulations on the bilateral trade. Efforts are also made to ensure that all EU member states are treated equally in terms of sanitary assumption (non-discrimination clause). Important is the harmonisation with international standards. Mutual trust and confidence will be fostered via regular information sharing and via the establishment of an SPS Committee for the approval of establishments where animal-based products are processed and for the establishment of an SPS issue-solving forum.

5.2.3. Trade in Services

With regards to the trade in services, the EU and South Korea's cooperation will go further in-depth than what has been agreed to in the WTO's GATS. Commitments have been made on both sides with regards to specific sectors, among which are the telecommunications sector, the financial sector, the broadcasting sector via satellites and the maritime transportation sector. With regards to the commitment to sustainable development, the FTA liberalises the environmental services markets of both parties (European Commission, 2010, p. 2-4).

¹⁰ Famous examples are Champagne, Cognac, Irish Whisky, Parmigiano Reggiano, Prosciutto di Parma, Bayerisches Bier and České pivo (European Commission, 2013).

5.3. Six years later: the preliminary results of the FTA

5.3.1. Results at the aggregate level

Tables 1 and 2 show the most recent figures regarding the bilateral trade between the EU and South Korea. The value of the export of goods and services from the EU to South Korea has seen a considerably rise of 67% in the years following the agreement, starting off from 35.5 billion euro in the year preceding the agreement to 59 billion euro by the end of 2015. The yearly increase in goods exports amounted to around 16% in 2011, 16% (2012), 6% (2013), 8% (2014), 11% (2015), in the following years. with a first slight decrease of 7% taking place in 2016. Simultaneously, the EU's exports in services followed a similar, mainly positive, growth trajectory, starting off from 9 billion euro in 2011 to over 11 billion euro in 2015.

EU goods exports to Korea			EU goods imports from Korea		
2010	27.9		2010	39.2	
2011	32.5	(+ 16.49%)	2011	36.1	(- 7,91%)
2012	37.7	(+ 16.00%)	2012	37.8	(+ 4,71%)
2013	39.9	(+ 5.84%)	2013	35.8	(- 5,29%)
2014	43.2	(+ 8.27%)	2014	38.8	(+ 8,38%)
2015	47.9	(+ 10.88%)	2015	42.3	(+ 9,02%)
2016	44.5	(- 7.10%)	2016	41.4	(- 2,13%)
EU services exports			EU services imports		
2010	7.5		2010	4.5	
2011	9.0	(+ 20%)	2011	4.5	0%
2012	9.0	(0%)	2012	4.7	(+ 4,44%)
2013	10.7	(+ 18.89%)	2013	5.7	(+21,27%)
2014	11.9	(+ 11,21%)	2014	6.0	(+ 5,26%)
2015	11.1	(- 6.72%)	2015	6.6	(+ 10%)
2016	n.a.		2016	n.a.	

Table 1: EU-South Korea trade figures (billion €) (UN Comtrade, 2017)

	Total EU exports		Total EU imports		EU trade balance
2010	35.4		43.7		-8.3
2011	41.5	(+17.23%)	40.6	(- 7.09%)	0.9
2012	46.7	(+12.53%)	42.5	(+ 4.68%)	4.2

2013	50.6	(+8.35%)	41.5	(- 2.35%)	9.1
2014	55.1	(+ 8.89%)	44.8	(+ 7.95%)	10.3
2015	59	(+ 7.10%)	48.9	(+ 9.15%)	10.1
Δ 2010-2015	+ € 23.6 billion	+ 66.67%	+ € 5.2 billion	+ 11.90%	

Table 2: EU-South Korea trade balance (billion €) (UN Comtrade, 2017)

The consequences on the EU's trade balance have turned out to be impressive: the tides have completely turned from a negative trade balance of -8.3 billion to over 10 billion euro in 2015, whereby the trade balance turned positive for the first time in the same year the FTA was inaugurated. However, in bilateral trade, a positive trade balance for the EU implies a de facto negative trade balance for South Korea. Nevertheless, when looking at the bigger picture, the results above show that the FTA has not turned out to be beneficial for the EU only, but the results also show that the overall trade between the two regions has risen to unprecedented levels. It could therefore be said that, in terms of economic welfare, both countries have made exceptional gains.

5.3.2. Results at the sectoral level

After having verified the positive effects of the EU-KR FTA on the macro-economic indicators for trade, this section will look deeper into what the effects have been at the sectoral level. Figure 2 shows the evolution in trade value of the most prominent sectors in the EU-Korea bilateral trade, divided according to their SITC (level 1) divisions.

The machinery and transport equipment sector (SITC section 7) is the EU's most important sector for its exports globally, and especially for its exports towards South Korea. The value of these exports exceeded 20 billion euro for the first time in 2011, the year of the introduction of the FTA, and has since experienced a steady growth up to 2015. Despite that the 2015 exports of machinery and transport equipment were marginally lower than in 2014, these have still remained significantly higher than in all the preceding years, with an increase of 43% compared to the year before the FTA. With regard to the progression of the imports from South Korea to the EU in this sector, the

highest point was reached in 2010 when imports from Korea valued over 38 billion euro. Since then, the value of machinery and transport imports have fluctuated quite stably around 30 billion euro.

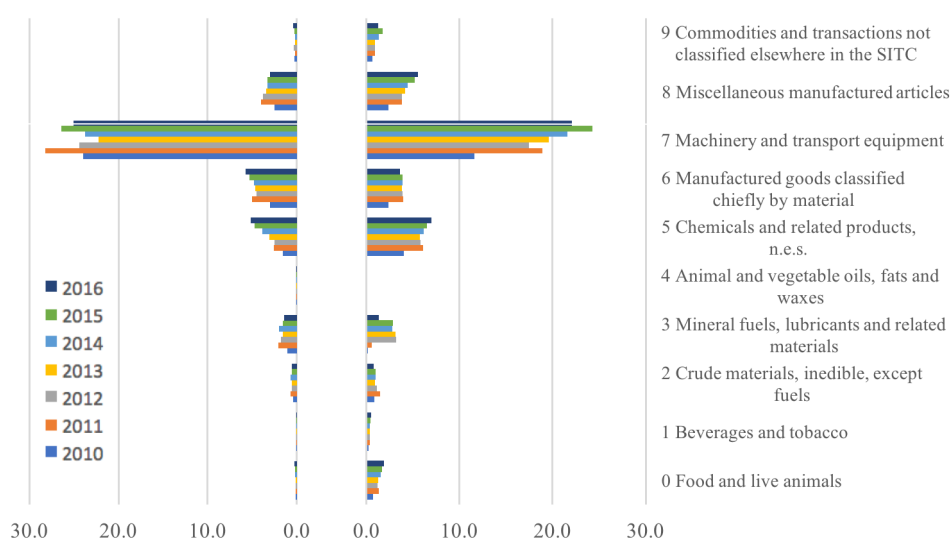


Figure 2: EU's imports (left) and exports (right) in goods from and to South Korea (SITC level 1), from 2010-2015 (billion \$) (Eurostat, 2017a)

The second most important sector for the EU with regards to exports to South Korea is the chemicals sector (SITC section 5). The exports to Korea grew from a little over 6 billion euro before the agreement to a value fluctuating around 7 billion euro today. Especially striking is how the inauguration of the FTA in 2011 went hand in hand with a 1 billion euro rise in its exports. The results were equally impressive for imports out of Korea, which rose from 2.4 billion euro before the agreement to more than double that amount by 2015, with a value of over 5.1 billion euro.

Other prominent sectors in the EU-Korea bilateral trade are the manufactured goods, grouped in SITC section 6, and the miscellaneous manufactured articles grouped in SITC section 8. In like manner, both the exports and imports of the SITC section 6 sector have

experienced growth, whereby in this case, the imports from Korea have always been higher than the exports towards it and whereby the imports have grown by 24% between 2010 and 2015, while the EU's exports have grown by 13%. The evolution in the SITC 8 sectors has been different, where the imports from Korea actually decreased by 10% in the considered timeframe, while on the other hand the EU's exports increased by over 50%.

The occurrence of growth in the trading partners' most vital exporting sectors is essential in the assessment of a Free Trade Agreement. That is because growth in a sector not only indicates an increase in production, but it also indicates the robustness and vitality of a sector, which in turns exhibits stability and potential growth in terms of employment. Free Trade Agreements are namely not mere economic entities set up by Ministries of Economic Affairs and Trade, but they exist in a socio-political environment where much hinges on public perception and sentiment. That is why the way an FTA impacts the life of the average citizen may matter more than its impact on macro-economic indicators, to which the citizen might feel no direct relation. A percentage growth in exports may not have the same meaning to a citizen as the future of his job.

5.3.3. Evaluating specific research question 1

To summarize, the analysis above provides the answer to the first specific research question: *1. What where the preliminary economic effects of the EU-KR FTA on the bilateral trade between both partners, between 2011 and 2017?*

Thanks to the EU-KR FTA, quasi all tariffs on the trade in goods have been eliminated. With regards to non-tariff barriers, the most crucial sectors to both economies are taken care of. These are the automotive, agricultural, electronics, pharmaceutical and public procurement sectors, together with the intellectual property rights. Also, with regards to the trade in services, the FTA has led to an enhanced liberalization and cooperation in

the telecommunications, financial, broadcasting, maritime transportation and environmental sectors.

This caused the bilateral trade between the EU and Korea to have reached unprecedented levels by 2017. When looking at it from the standpoint of the EU, its exports with Korea have increased by 67% and its imports have increased by 12%. In terms of economic welfare, both countries have made exceptional gains.

5.4. Discussion of the EU-KR FTA: aftermath and points of contention

5.4.1. Current shortcomings of the EU-KR FTA

In the framework of a further expansion of the free trade agreement with the EU, South Korea has shown interest in adding an investment protection chapter. This request has been submitted at the European Parliament Commission for International Trade (INTA) during an official visit to South Korea in May 2016 and specifically pertains to the inclusion of an Investment Court System. Whether the European Parliament will accept this arbitration procedure is still unsure, but the EU Trade Commissioner Cecilia Malmström appears to be in favour.

However, the inclusion of an investment chapter won't proceed easily. According to the European Parliament (2017a, 2017b), there are a number of issues that need to be resolved prior to initiating negotiations on an investment chapter. In a resolution drafted by MEP Adam Szejnfeld, the following are the most recent points of contention (anno 2017) that need to be resolved in the FTA:

- The agreement has shortcomings in Chapter 13 'Trade and Sustainable Development'. South Korea still hasn't ratified the fundamental Conventions of the International Labour Organisation, which has left labour rights violations unchallenged¹¹.

¹¹ Cases of violations of the freedom of association in South Korea and the imprisonment of union leaders have been recorded (Donceel, 2017).

- A number of new technical barriers to trade have been recorded. These mainly relate to the Direct Transport Clause, which causes shipments to lose their preferential status when they get repackaged in a third country, unless proof of compliance is given. This clause puts too much burden on exporters by overcomplicating the shipments between the two regions.
- There are intellectual property rights issues regarding the protection of geographical indications and the rights to the public performance of copyrighted songs and performances.
- Korean Sanitary and Phytosanitary measures have also proven to be a TBT for European meat exporters; and
- There is a need to create more awareness on the benefits of the FTA with Small and Medium Enterprises (SMEs) on both sides. This appears to have become a necessity in light of the current global trend of increasing weariness against liberalised trade.

5.4.2. From ISDS to ICS

Only once the listed shortcomings have been resolved, does the European Parliament (2017) advise the inclusion an investment chapter. However, the determination of the dispute settlement itself won't be easy either. While South Korea has shown interest in using the traditional Investor-Stated Dispute Settlement (ISDS) system, the Parliament has already made clear that it won't accept this type of system and indicated its preference for the new Investment Court System (ICS) that has been proposed by the European Commission.

The determination of the nature of the investment protection framework has been a contentious issue in international free trade agreements¹². As the number of FTAs has

¹² For example, seven years of trade talks of the EU-Canada Comprehensive Economic and Trade Agreement (CETA) were almost threatened to have failed exactly due to the discussion on the inclusion of an ICS (Biel & Wheeler, 2016).

grown globally over the past decades, interest has grown for the inclusion of particular investment provisions or even the inclusion of a comprehensive investment chapter. The main purpose of such provisions is to liberalise investments between FTA partner countries and to set up a well-defined framework that incorporates a settlement mechanism that can resolve disputes between investors from all sides (European Parliament, 2017c, p. 4).

Most current trade agreements make use of the ISDS system, which is made on the basis of a traditional arbitral proceeding (p. 5). This allows foreign investors to directly challenge the state's actions while enjoying the protection of international law, rather than challenging said government under its domestic laws or indirectly challenging it via a state-to-state dispute settlement procedure (p. 6). However, despite the good intention of granting individual investors legal protection and certainty, the ISDS system is criticised for a number of reasons (European Parliament, 2017c, pp. 9-10; Latek & Puccio, 2015, p. 5):

- It might threaten a state's power to legislate and thereby infringe its sovereignty;
- The costs of the legal proceedings are usually quite expensive, particularly when a state loses a case;
- It might actually decrease certainty for investors due to the differences in ISDS systems among different free trade agreements;
- Very important is the lack of transparency in ISDS systems since information can only be made public with the states' consent.

Taking these points of criticism into account, the European Parliament therefore pushed for an amended version of the ISDS and the first time it was introduced was during the CETA negotiations. Rather than being an arbitration model, the ICS would tackle the transparency issues by having a tribunal and appellate body in which the judges will be appointed and in service on a rotational basis, very similarly to the WTO's judicial system (European Parliament, 2017c, pp. 13-14).

5.4.3. The consequences of the Brexit referendum

Another important development that is likely to influence the FTA is the United Kingdom's departure from the EU, commonly known as Brexit. The Brexit came as a consequence of a referendum held on June 23, 2016, whereby a majority of 51.9% of UK voters chose to leave the Union, and the UK's departure is officially scheduled to take place on March 29, 2019. The Brexit movement gained popularity among UK voters who believed that the EU's single market has made the UK lose control over its own legislation and has caused an inflow of immigrants that they perceive to be threatening for various reasons. The vote to leave came as a surprise to the world and sparked debates on what the consequences will be for both the UK and the EU's economies and the relations with their international trading partners (Hunt & Wheeler, 2017).

If the UK effectively leaves the EU, then that would mean that the EU market has decreased by 17%. South Korea will in that case most definitely gain less out of the agreement than what it initially had anticipated. Famaey (2016) argues that the country will consequently demand some type of rectification for this loss. To compensate, the Korean government has already informed that, in case the Brexit does take place, it wants to make changes to the agreed upon rules of origin, as to make this more advantageous to the Korean economy.

Another possible option is if the UK remains in the agreement as a third independent party, in which case a number of problems might be bypassed. According to MacLellan (2017), the UK has already made its intentions clear on adopting the EU's trade agreements with over 40 countries, rather than negotiating new deals from scratch. However, trade minister Liam Fox has made it clear that the British government does not put all the EU's trade agreements on an equal standing, and will prioritise certain agreements over others. Amongst the top-priority agreements are the EU-KR and EU-Switzerland FTAs, as these represent around 80% of the trade value. According to Fox,

the partner countries, like South Korea, have shown to go down the easier route of ‘transitioning’ over to a UK agreement, rather than negotiating a completely new one (MacLellan, 2017).

5.4.4. Asymmetrical gains for the EU and South Korea?

It is also important to note that, when looking at the evolution of the trade balance during the past six years, the EU appears to have gained more out of the trade agreement than South Korea. Considering the tendency of certain politicians, public interest groups and media to focus on face-value results, it is not surprising that the negative reversal of the South Korea’s trade balance could be painted as a failure for the country. Where South Korea continuously used to have a positive trade balance with the EU, the introduction of the EU-KR FTA seems to have put an end to this favourable run and its bilateral trade balance seems to be worsening with each consecutive year.

However, Heider (2017), president of the European Chamber of Commerce in Korea (ECCCK) strongly argues against using the trade balance as the sole indicator to evaluate the effectiveness of an FTA. An agreement of such calibre can only be set up between countries when all sides envisage a likely chance to gain benefits out of it, when they can complement each other and when they enable them to develop a comparative advantage that will enhance exports in certain sectors. The EU-KR FTA has not been an exception to this. Setting aside the evolution of the trade balance in the past six years, it would be erroneous to ignore that both the EU and South Korea have increased their exports and imports in absolute figures.

Heider (2017) asserts that the focus of public discussion on FTAs tend to simply focus on the trade in goods, while ignoring other important aspects such as the trade in services and foreign direct investments. Furthermore, a negative bilateral trade balance per se is not exclusively unfavourable for an economy. Having a trade deficit will actually lead a country’s currency to depreciate in the medium to long term, which will lead its prices

to go down and hence becoming more attractive for foreign consumers and boosting exports again. On the other hand, a country with a trade surplus, like the EU in this case, will see its prices go up, which will in turn cause its exports to decrease. That is why Heider considers the trade balance to follow a cyclical process and thus not an optimal indicator to evaluate FTAs.

5.4.5. Evaluating specific research question 2

To summarize, the analysis above provides the answer to the second specific research question: *2. What are currently the main points of tension and how do the EU and Korea respond to them?*

One of the most important shortcomings of the FTA can be found in its thirteenth chapter, the 'Trade and Sustainable Development Chapter'. The problem is that Korea hasn't ratified all fundamental ILO conventions yet and that cases of labour rights violations have been recorded in the country. This has led the European Parliament to block the inclusion of a highly sought-after Investment Chapter in the FTA, for as long as the labour issues aren't solved.

The second issue is the appearance of new TBTs. The most important of these is related to the FTA Direct Transportation Clause, which causes split shipments (repackaged in a third country) to lose their preferential status, unless proof of compliance is given. The third issue is related to the possible inclusion of a Dispute Settlement System, whereby the parties differ in whether to use the ISDS or the ICS. Finally, the remaining issues are the perceived asymmetrical gains of the FTA for the EU and Korea, the Brexit and the uncertain consequences that it entails on the relations between the two parties, and the lack of awareness of the EU-KR FTA with SMEs.

6. The EU-Japan Free Trade Agreement

After having dealt with the first part of this research's twofold analysis (the analysis on the preliminary results of the EU-KR FTA), this research now enters its second part, namely the analysis on the EU-JP FTA's prospects and which lessons from the first part can be applied to this case. This chapter will tackle specific research question 3:

3. *What similarities does the EU-Japan FTA have with the EU-KR FTA?*

6.1. Japan as a trading partner

6.1.1. The Japanese economy: a history of miracles and troubles

The EU's choice to negotiate an FTA with Japan was as natural and predictable as it was with South Korea. Japan is one of the most heavily populated countries in the world, and is currently the third largest economy after the US and China. According to Binder (2016, p. 2), the East Asian country represents a market comparable in size to China, with Japan's rate of private spending even surpassing that of the economic giant. He notes that the intra-regional trade in the Asia-Pacific region has tripled since the year 2000, with Japan taking an import role therein, while the EU and US' shares in the region remained lacklustre. Deepening trade relations with Japan hence fits well into the EU's goal of renewing its involvement in Asia, as has been discussed in section 2.5.

Japan's economy has followed a peculiar course over the past few decades. The 1980s were characterized by soaring growth with an average GDP increase of about 5% per year. At the time, Japan dominated around one fifth of the global automotive market and became one of the most important electronics exporters in the world. By 1995, Japan's 'Economic Miracle' caused its GDP per capita to reach a peak of 43.4 thousand USD, which was at an even higher level than the United States and Europe at the time (World Bank, 2017). This caused the country to run large trade surpluses that enabled it to go on a spending spree, buying up properties abroad and particularly in the US (Hays, 2009; Wile, 2013).

However, according to Wakatabe (2017), Japan's stellar growth was largely due to the unbridled financing of real estate and investment projects by the Japanese financial sectors, which ended up creating an asset price bubble that would soon turn out to have dire consequences. The bubble burst in the early nineties and heralded a long-term period of economic stagnation, wherein Japan's GDP, consumer prices and wages entered into a downward spiral for over twenty years. This period came to be known as Japan's Two Lost Decades (Wakatabe, 2017). As a consequence of the collapsed asset price bubble, the Japanese government learned a valuable lesson on the importance of an adequate supervision of the country's financial institutions. In response, the government imposed thorough reforms of the financial sector in order to prevent such bubbles from taking shape in the future. This harsh lesson has turned out to be beneficial for Japan in the long run, since the sound risk management practices that emerged out of the reforms hedged the country against the brunt of the global financial crisis in 2008.

Despite its commendable financial supervision, Japan did not come out of the 2008 crisis completely unscathed. The Japanese Yen appreciated significantly between 2008 and 2012 compared to the US dollar and the euro due to the decrease in confidence in these currencies at the time. This has led risk averse investors to turn to the Yen as what Kerkhoff (2016) calls a "safe-haven currency". The problem with an appreciating Yen is that Japanese goods and services became more expensive, which in turn decrease their international demand. According to FIT (n.d.) Japan could however count on its increased exports to China to somewhat mitigate the side effects of its currency appreciation.

Japan has now one of the highest developed economies in the world, whereby the primary sector only takes in 1.1%, the industrial sector 29.6% and the services sector more than 69%, which is an economic composition very similar to the Korean one (CIA, 2017). According to the OECD (2017a; 2017b), Japan had an annual GDP growth rate of 0.97% between 2011 and 2016 and is expected to grow 1.4% in 2017. By 2016,

Japan's GDP per capita has reached 38.9 thousand USD. Although it is still lower than it had been since its all-time high of 48.6 thousand USD in 2012, it is gradually moving upwards again (World Bank, 2017).

The socio-economic challenges the country faces are similar to South Korea, and in certain cases more advanced. According to the OECD (2017b, p. 194), Japan's Debt to GDP ratio is projected to rise further, mainly due to Prime Minister Shinzo Abe's expansionary budgetary policies that aim to boost domestic productivity and employment. It has namely become apparent for the government that the country's shrinking and ageing population will pose a serious challenge in the not-too-distant future. Another important issue is the large wage gap between regular and non-regular workers. The latter group represents around 38% of the total workforce in the country and has a particularly high concentration of women (p. 197). According to Chanlett-Avery and Nelson (2014, p. 413), boosting the employment of women, which is being called "womenomics", has become one of the government's key policy strategies to solve these challenges.

6.1.2. Japan's venture towards Economic Partnership Agreements

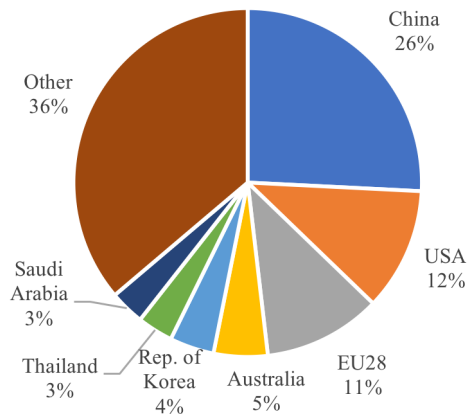
Just like South Korea, Japan is striving actively towards establishing free trade agreements with the world's most important trade blocks. Central to Prime Minister Shinzo Abe's proactive strategy to revive the Japanese economy, officially called Abenomics, are what the Japanese government calls its "Three Policy Arrows". These arrows are targeted at an aggressive monetary policy, a flexible fiscal policy and a growth strategy based on structural reforms (JapanGov, n.d.). It is on the one hand the Bank of Japan's negative interest rate policy and the Abe government's stimulus packages that are the embodiment of the first two policy arrows through which the government hopes it can slowly bring the country out of its decades-old condition of stagnation. While it is on the other hand the third arrow, the structural reform policy,

that focusses on the promotion of trade deals and economic partnerships (Macfarlane, 2017).

In the Japanese Ministry of Foreign Affairs' (MOFA) *Japan Revitalization Strategy*, published in June 2014, the government heavily emphasizes the building of strategic trade relationships and the promotion of economic partnerships around the world (MOFA, 2014, p. 166). By 2017, Japan has established FTAs, which it calls *Economic Partnership Agreements (EPA)*, with fifteen countries and is currently negotiating nine additional EPAs, among which are Canada, Colombia, South Korea, and the ambitious EU-Japan EPA (MOFA, n.d.; MOFA, 2014, p. 166-171).

Figure 3 shows that the European Union is Japan's third most important trading partner. In terms of imports, the EU provides around 11% of all the foreign goods entering the Japanese market, trailing the top importers China and the US whom represent 26% and 12% of Japanese imports respectively. With the inauguration of the EU-Japan EPA, the chance is very likely that the EU will surpass the United States. In terms of Japanese exports, the most important market is the US, where 20% of all Japanese exports end up. Following the US is China, where nearly the same value of goods exports is sold. In this case, although the EU is the third most important export destination for Japan, the total value of the goods exported is only half as much as what is destined for China. It will therefore be interesting to verify how much of a rise in trade the EPA will usher in once it eventually comes into force.

JP top import partners (2016)



JP top export partners (2016)

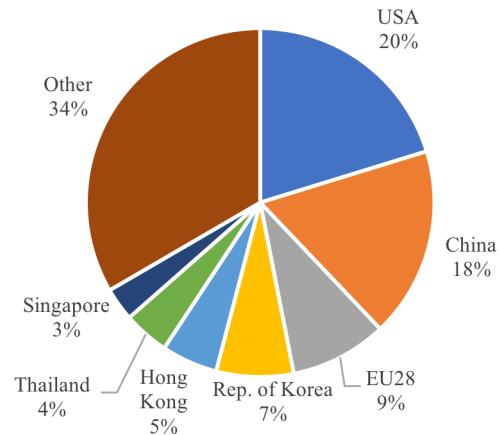


Figure 3: Most important trade partners of Japan. (UN Comtrade, 2017; European Commission, 2017b)

Also, worthy of note is that in this case South Korea, the closest neighbouring country to Japan, only comes in at fifth place in terms of imports to Japan and fourth place when it regards exports from Japan. This can again be explained by the Gravity Model of International Trade (see section 2.1.), which asserts that the volume of the bilateral trade does not only depend on the distance between the trade partners, but also on the size of their economies.

6.2. Goals of the EU-Japan FTA/EPA Negotiations

6.2.1. *The rationale for the trade agreement*

The number of bilateral trade agreements that are either being negotiated or already in force have dramatically increased since the late nineties (Shiotani, 2004). An interesting development relating Japan and the EU is that both regions have spent a significant amount of time and resources in negotiating comprehensive trade deals with the United States, and that the progress towards reaching these agreements has either been stalled or cancelled in its entirety. In the EU's case, it concerns the bilateral Transatlantic Trade

and Investment Partnership (TTIP) with the US, and in the case of Japan, it concerns the plurilateral Trans-Pacific Partnership Agreement (TPP) that was being negotiated by twelve countries in total¹³.

The issue with the TTIP deal is that it has essentially been put on hold due to a widespread public opposition against it on both the EU and US sides. The unpredictability surrounding the US government's position¹⁴ towards the agreement has not helped it make any progress either. The issue with the TPP deal is that, in this case, the Trump Administration has unequivocally pulled out of the negotiations, leaving the eleven remaining participating countries, including Japan, to seek for alternatives. That is why a comprehensive trade deal between the EU and Japan would be one of the best solutions to fill the gap left by the US. If successfully concluded, the EU-JP EPA would represent a massive partnership that covers over 30% of the global GDP and 10% of the world's population (METI, n.d.).

The EU and Japan have a long history of being important trade partners to each other. According to the European Commission (2017b), Japan has a record of large trade surpluses with the EU because of the typically closed characteristics of the Japanese economy, which complicate the smooth import of foreign goods into the country. The issues are spread out on a number of levels: the presence of tariffs, a high level of protection for the country's agricultural sector, arduous non-tariff barriers, and barriers in the services sector and in government procurement. These issues will be further elaborated on in the coming sections.

The EU and Japan have already established a number of agreements that have formed the basic stepping stones for the future EPA. First of all, the Mutual Recognition

¹³ The original TPP member states would have been Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore the US and Vietnam, but the US officially withdrew from the TPP on 23 January 2017.

¹⁴ The administration of US President Donald Trump.

Agreement was set up in 2001 to create a framework to assess whether products and services meet the agreed upon technical standards and requirements (EUR-Lex, 2001). Specifically, it pertains to telecommunications equipment, electrical products, and manufacturing practices for chemicals and pharmaceuticals. Second of all, the Agreement on Cooperation on Anticompetitive Activities of 2003 was set up to facilitate investments and trade in general between the two regions by promoting cooperation in the field of competition law (EUR-Lex, 2003).

Thirdly, the Agreement on Cooperation and Mutual Administrative Assistance was introduced to promote cooperation in customs procedures, by enhancing the flow of information, and by providing technical cooperation and a platform for discussions between the parties (EUR-Lex, 2008). Lastly, the Science and Technology Agreement of 2009 was introduced to promote cooperative activities in science and technology that would benefit all parties involved (EUR-Lex, 2009). While these agreements are a good way to promote increased cooperation on these vital areas, they are in and of themselves merely steppingstones and are short of an actual liberalisation of trade where the two regions are subject to the same laws.

6.2.2. Tariffs

The primary goal of the EU-JP EPA is the elimination of tariffs between the regions across all sectors. Currently, a wide range of products are subject to tariffs on both sides, but since both the EU and Japan are members of the WTO, the rates of these tariffs are in effect 'bound'. As a result of the Uruguay Round, the WTO member states have namely committed themselves to first of all not introduce additional import duties and to second of all limit the variation of the existing import duties, making them de facto difficult to raise. Since the Uruguay Round the number of product lines in developed countries subject to bound rates have increased from 78% to 99% (WTO, 2017a).

According to Felbermayr, Kimura, Okubo, Steininger and Yalcin (2017, p. 29), about 75% of the bilateral trade between the EU and Japan are subject to tariffs. Of those goods protected by tariffs, 85% is subject to tariffs lower than 10%, while the remaining 15% of the protected goods have duties bound to around 30% in the EU and 35% in Japan. The most heavily protected sector in their bilateral goods trade is the agricultural sector, of which the current average duty rate is above 10% on both sides.

Figure 4 shows to which extent the average Most-Favoured Nation (MFN) tariffs differ between the agricultural and non-agricultural sectors. According to the World Bank (2010), the MFN tariffs are the tariff lines that WTO member states use amongst themselves and are not allowed to not exceed. These MFN tariffs are acceptable to use as long as the involved WTO member states are not part of a preferential trade agreement.

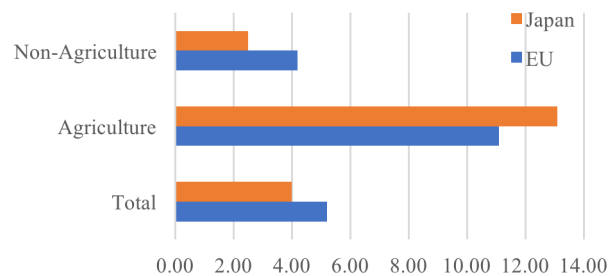


Figure 4: The EU and Japan's simple average MFN applied tariffs, 2016 (%) (WTO, 2017b).

With regards to the agricultural sectors, figure 5 shows which particular sectors the EU and Japan have defensive interests in. The dairy products sector is by far the most protected, which has a 35.4% MFN applied duty in the EU and almost double that amount (65.7%) in Japan. Japan's tariff also largely exceeds that of the EU in the cereals and preparations sector, where it levies a 32.3% tariff, which is almost three times as

high when compared to the 12.8% tariff by the EU. Another sector that is important for both regions is the sugars and confectionery sector, which have 23.6% and 20.6% tariff in the EU and Japan respectively. Lastly, other key sectors are the animal products and the beverages and tobacco sectors, of which the duties are all higher than 10%.

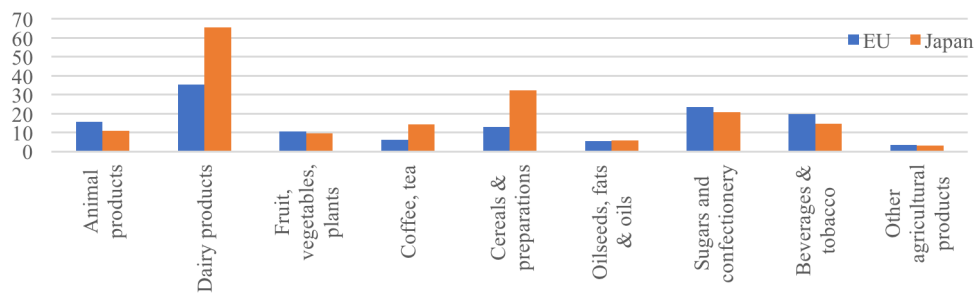


Figure 5: EU and Japan MFN applied tariffs in agricultural sectors, 2016 (%) (WTO, 2017b)

Although the agricultural goods enjoy a high rate of protection, certain non-agricultural sectors have duty rates that also exceed 10%. Figure 6 illustrates the applied MFN duties for the EU's and Japan's non-agricultural sectors. The cases in point are the EU's fish and fish products sector, together with the clothing sector, which have tariff lines of 12% and 11.5% respectively. For Japan, the sectors with the highest applied duties are the clothing sector and the leather and footwear sector, with 9% and 8.7% respectively. It is interesting to note is that in this case, while the tariffs vary significantly across industries, the average MFN applied duties in the Japanese non-agricultural sectors are across the board lower than in the European counterparts.

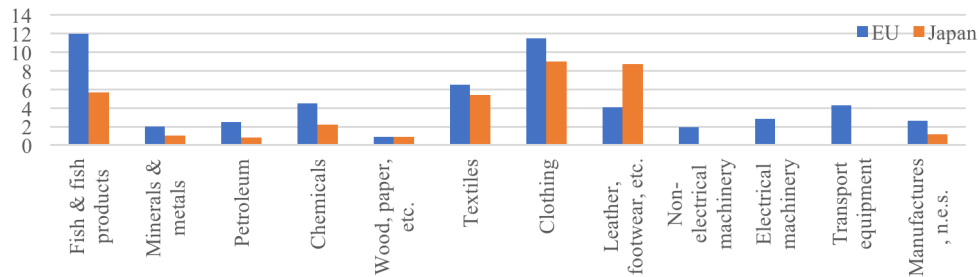


Figure 6: EU and Japan MFN applied duties in non-agricultural sector, 2016 (%) (WTO 2017b)

Therefore, considering how high the tariffs are, not only in both trading partners' agricultural sectors, but also in certain key non-agricultural sectors, the elimination of tariffs under the EU-JP EPA would unequivocally facilitate the trade between the regions significantly. The mere fact that around three quarters of the total trade in goods between the EU and Japan is still subject to duties demonstrates that sizeable gains in welfare could be achieved with the introduction of the Economic Partnership Agreement.

6.2.3. Non-Tariff Barriers

One of the most tedious issues when trading with Japan are the country's elaborate and convoluted sanitary and phytosanitary (SPS) regulations and its technical barriers to trade. The problem with these NTBs is that these not only make it difficult for exporting companies to keep up with the regulations, but that these also lead to added costs that hamper trade from flowing efficiently. Figure 7 compares the number of Japan's NTBs with that of the EU's. The various indicated categories are set up by the UNCTAD database on NTBs, the Trade Analysis Information System (TRAINS). The NTBs are divided among export-related measures (EXP), border inspections (INSP), price control measures (PC), quality control measures (QC), sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT).

Across almost all of the NTB categories, Japan has more measures in effect than the EU, the only exception being the QC category. First of all, Japan's SPS regulations largely overshadow that of its future EPA partner, with its 236 measures more than doubling the EU's amount. Secondly, with regards to TBTs, the situation is similar. The TBT category is by far the largest, with Japan having 617 measures in place that hamper trade and the EU 325. A third category of significant importance is the EXP, of which Japan's amount again dwarfs the EU's amount. It would therefore come as no surprise that these specific NTB categories will play an important role in the EPA negotiations.

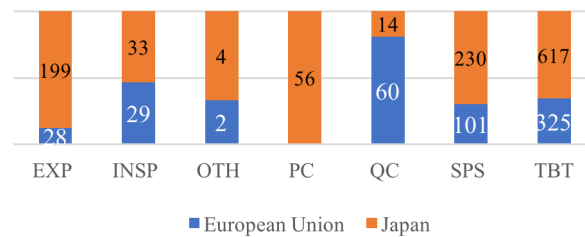


Figure 7: Amount of EU and Japan Non-Tariff Barriers (2017) (UNCTAD, 2017)

6.2.4. Trade in Services

The services sector generally plays a prominent role in highly developed countries, and that is also the case for the EU and Japan. According to the CIA World Factbook, the EU's services sector represents 71% of the EU's total GDP in 2016, while in the case of Japan, it represents around 69.4% (CIA, 2017). Considering the immense size of the sector in both countries, a true liberalisation of trade is bound to never take place if this sector is not addressed.

Felbermayr et al. (2017, p. 34) assert that Japan's services sector is heavily protected against competition from foreign firms, and excessively so in comparison to other developed countries. The main causes are the government's internal regulations which

make the market entry, licensing procedures and business ownership for foreign companies difficult. Japan has four major services sectors that play a key role in the country's economy and whom represent the country's defensive interests in the negotiations.

The first sector is the financial sector. When it regards banking and financial services, Japan is relatively liberalized. According to Felbermayr et al. (2017, p. 35), the main issue is the strict regulation of the banking sector under the Financial Services Agency (FSA), which requires all banks to be licensed in order to operate in the country. Foreign banks can only offer services via subsidiaries that need to be incorporated in the country. The second important services sector is the telecommunication sector. Japan's telecom sector is dominated by a select group of companies, to which foreign ownership is limited to only 33%.

Thirdly, the maritime transport sector is also a vital sector for the country, as the lion's share of Japan's trade is transported by ship. Foreign investments in the sector are possible, but are required to go through an administrative process subject to the country's various Marine and Coastal laws. Finally, as is the case with the telecommunications sector, foreign ownership of companies in the air transport sector is currently also limited to 33% (Felbermayr et al., 2017, p. 35).

6.2.5. Public procurement

Public procurement plays an important role in both markets and will be one of the cornerstones of the EU-JP EPA. Public procurement concerns the acquisitions of goods and services by local and national governments and tend to value over billions of euros. This is particularly the case with the EU and Japan, of which the public procurement market takes up over 15% of their respective total yearly GDPs (European Commission, 2017c, p. 1).

The European Commission (2017c, p. 2), identifies a number of issues that complicate the EU's access to the public procurement market in Japan. Although the country is bound under the WTO's Government Procurement Agreement (GPA), foreign investors are still discriminated against during biddings for public contracts and the requirements to show proof of previous collaboration with local enterprises exacerbates the process. The EU therefore attempts to remedy discrimination against its investors on all levels and to improve transparency to promote more EU participation in Japan's public procurement market.

One of the key areas that the EU calls for better access to is Japan's railway sector, particularly in the infrastructure projects related to it. Other key areas are medical and academic institutions and electricity distributors. On the other hand, the EU also calls for non-discrimination in procurement projects at the regional and local levels. In return, Japan calls for better access to the EU's regional and local markets for public transport equipment (p. 3).

6.3. Progression of the negotiations

The FTA negotiations between Japan and the EU were officially initiated on March 25, 2013. The main goal of the negotiations is to discuss and resolve the parties' common issues related to the bilateral trade, in accordance with the categorization as presented section 5.2. of this research¹⁵. The stated objective of the agreement according to the Council of the European Union (2012) is the "progressive and reciprocal liberalisation of trade in goods, services and investment, as well as rules on trade-related issues and the elimination of non-tariff barriers". The emphasis is therefore made on the fact that the trade agreement will be a process, rather than a one-time policy change, and that reciprocal concessions are expected to be made between the partner countries.

¹⁵ Tariffs, NTBs, trade in services and public procurement.

As both countries are part of an elaborate web of bilateral and regional trade initiatives and negotiations with various trade partners, the EU-JP EPA negotiations happened in parallel with other negotiations and are therefore influenced thereby. According to Binder (2016, p. 4), the most prominent agreements concluded by the EU were the EU-KR FTA and CETA with the Canadian government, and these took precedence over the negotiations with Japan. Japan on the other hand prioritised the TPP negotiations. This helped both regions to sharpen their positions on certain important issues, these being the EU's stance on investment disputes and Japan's stance on agricultural issues.

The negotiation rounds have been intensive but constructive whereby all concerned issue areas have been negotiated on. Japan's and the EU's defensive interests in the negotiations as follows:

- Japan's priorities lie in the elimination of the EU's tariffs on industrial products. It particularly points out the 10% tariff on automobiles and the 14% tariff on electrical machinery¹⁶ (MOFA, 2017, p. 2). The main issue is that Japanese producers are currently experiencing disadvantages compared to competing Korean products in the EU market. Another of Japan's priorities lies in the facilitation of the EU's regulatory process for Japanese companies, or in other words, the tackling of the EU's NTBs. According to Binder (2016, p. 6), the particular sectors affected are the chemicals, food and automotive sectors. Finally, Japan also puts much importance on the inclusion of an ISDS procedure¹⁷.
- The EU's main areas of interest lie first of all in the tackling of the limited market access for agricultural products. Second of all, the EU aims to deal with important NTBs hampering efficient trade in, among others, the automotive, electrical machinery, foods, pharmaceutical and chemicals industries. Thirdly,

¹⁶ These numbers are not the average tariffs for these industries but the highest tariffs currently levied on specific products in these industries.

¹⁷ See section 4.4.2. for more detailed information on ISDS.

very sensitive to EU industries are the protection of Intellectual Property Rights and Geographical Indications (GI)¹⁸, under the trade agreement. Finally, a more accessible Japanese Public Procurement market, services and investments sectors, and the inclusion of Sustainable Development provisions are also high up on the EU's priorities list (MOFA, 2017, p. 2; Binder, 2016, p. 5).

As of the week of April 3, 2017, eighteen negotiation rounds have taken place between the contracting parties. A breakthrough of the negotiations was announced on July 6, 2017 at the EU-Japan Summit in Brussels. A political agreement in principle was reached but further work on the remaining technical points still needs be made and the parties envisage to have finished the final text by the end of the year (European Commission, 2017d).

Together with the July 6th announcement came a draft agreement document that was published and sent to all member states. Although the outcome of the negotiations is disclosed, ranging from preliminary decisions on tariffs, NTBs, services, IPR, TBT, SPS and the Dispute Settlement Mechanism, the document emphasises that it is not a legally binding text and that amendments will be made before its finalisation by what is expected to be the end of 2017 (European Commission, 2017e).

6.4. The expected results of the EU-JP EPA

6.4.1. The composition of the pre-EPA bilateral trade

Figure 8 illustrates the evolution of the trade in goods between the EU and Japan since 2010. The EU's imports of Japanese goods have consistently been higher than its exports to Japan. However, the trade balance has considerably improved in the EU's favour in the regarded time period. Historically, the EU's trade deficit with the country was significant, even reaching over 40 billion euro ten years ago (Eurostat, 2017b). This

¹⁸ Also known as Appellations of Origin. See section 4.2.2. for more detailed information on GI.

changed however into a deficit of around 30 billion euro by 2010, which decreased even more dramatically by 2013 to a deficit of only 3 billion euro. This change is largely due to the EU's improved export performance with Japan and its lower imports. The establishment of the EU's FTA with Korea is one of the main catalysts for the EU's decrease in demand and, as mentioned in section 5.2, this became an important concern for Japan and a strong argument for the establishment of the EU-JP EPA.

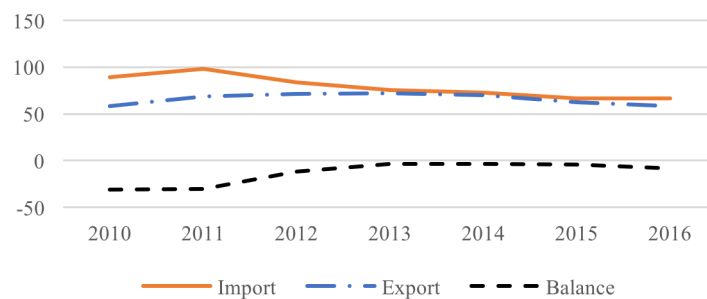


Figure 8: EU goods trade with Japan (€ billion) (Eurostat, 2017b)

In contrast to the trade in goods with Japan, the EU's services exports generally exceed the imports, as is illustrated in figure 9. The trade surplus in services fluctuated around 5 billion euro in 2010 and 2011, but followed an upward trend since 2012. With the positive evolution in the services trade for the EU, together with its improving trade deficit in the goods sector, the EU's total trade deficit with Japan improved from 73 billion euro in 2010 to 20 billion euro in 2016.

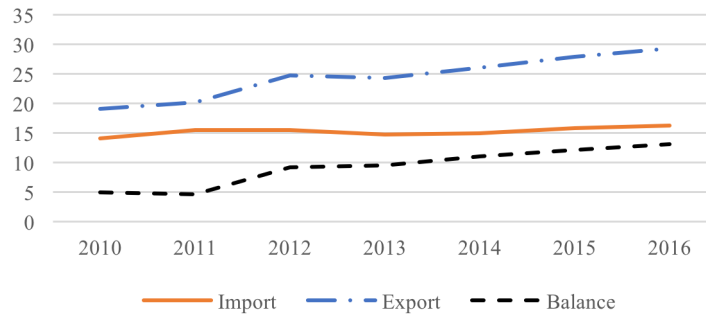


Figure 9: EU services trade with Japan (€ billion) (Eurostat, 2017b)

The evolution in trade value of the most prominent sectors in the EU-Japan bilateral trade is illustrated in figure 10. As was the case with South Korea's trade with the EU, the most important sector for Japanese exporters is the machinery and transport sector (SITC section 7), and its value largely exceeds that of any other Japanese export sector. The value of these imports into the EU fluctuated around 41 billion euro between 2010 and 2016.

As could be surmised from the defensive interests of both parties¹⁹, the same sector is also the most important export sector for the EU, even though its value is barely half as large as Japan's. These exports have been following an upward trend, going from 13 billion euro in 2010 to almost 22 billion euro by 2016. The EU intends to capitalize on this growth and hopes to exponentially increase it via the lowering of Japan's current trade barriers.

The chemical industry (SITC section 5) is the second most important exporting sector for the EU, and its exports have also grown in value in the past six years, going from 11.4 billion to 14.5 billion euro. On the other hand, the imports from Japan in the sector have fluctuated around 6.7 billion euro. Finally, the producers of miscellaneous

¹⁹ See section 6.3.

manufactured articles (SITC section 8) also play an important role in the bilateral trade. In this case, both countries export a similar amount in terms of value, whereby the EU's exports averaged around 8.6 billion euro in the considered timeframe and the imports from Japan having averaged around 7.6 billion euro.

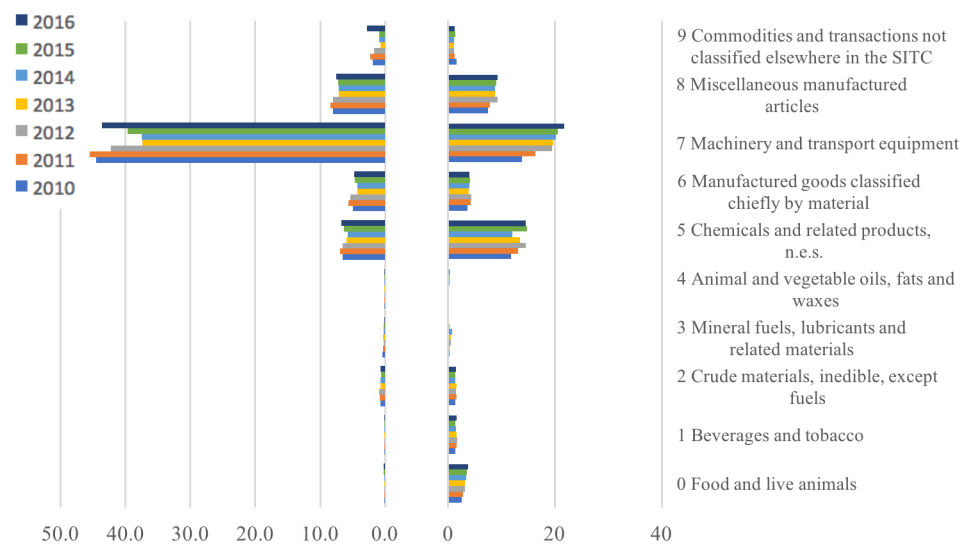


Figure 10: EU's imports (left) and exports (right) in goods from and to Japan (SITC level 1), from 2010-2016 (billion €) (Eurostat, 2017a)

6.4.2. Predictive studies on the results of the EPA

Predicting how the prospected trade agreement will impact the trade figures between the EU and Japan is not an easy task. Three studies have been conducted to assess the potential impact the EU-JP EPA will have on both parties' economies. The first study was made by Sunesen, Francois and Thella (2009) of Copenhagen Economics, a Danish economic consultancy firm, at the request of the European Commission in 2009. The study used a Computable General Equilibrium (CGE) model to predict the impact of different degrees of an elimination of tariffs on the EU-Japan bilateral trade.

Sunesen et al. (2009, p. 86) expected that a bilateral trade liberalisation between the two regions would lead to net gains on both sides. The manufacturing sectors in particular would benefit from the elimination of tariffs and NTBs. They also argue that the removal of the NTBs will cause greater gains in welfare than what the tariff reduction in itself could ever cause. In the best-case scenario, they expected the EU's exports to grow by 70% and Japanese exports by 60%.

The second study was an Impact Assessment Report made by the European Commission in 2012, in preparation for the EPA negotiations that would start a year later. The European Commission (2012, p. 34) study also built a CGE model with adapted parameters that take into account global production, trade flows, degrees of competition and cross-sectoral influences. The results have been more conservative in this case, where in the best-case scenario the rise in EU exports is predicted to equal 32.7% and the rise in Japanese exports would equal 23.5% (p. 38). These are the figures related to the bilateral trade, but equally interesting to look at is what the expected effect would be on the partners' global trade. In case of the EU, the study expects a rise of 2.9%, while in Japan's case the rise in its global exports would be 7.3% (p. 38).

The final study was a Trade and Sustainability Impact Assessment (SIA) made by the European Commission in 2016, also based on CGE modelling. In this extensive study, the European Commission (2016, p. 55) predicts that the effects of the EU-JP EPA will be greater than that of the EU's FTA with South Korea. This time, the modelling predicted a 34% increase for the EU and a 29% increase for Japan in terms of bilateral trade. The global exports on the other hand are expected to rise 4% and 6% for the EU and Japan respectively. The model expects that the cheaper imports will lead to higher consumer welfare and that the facilitated investments will lead to growth in both trading partners' long-term employment rates. Finally, it expects the main beneficiaries to be the agricultural sector in the EU and the automotive sector in Japan.

6.5. Evaluating specific research question 3

To summarize, the analysis above provides the answer to the third specific research question: 3. *What similarities does the EU-Japan FTA have with the EU-Korea FTA?*

The choice for Japan was as straightforward as the choice for Korea, as both are: highly developed (East) Asian countries; important trading partners of the EU since before their respective FTAs; they have common ground in terms of normative principles; and both have had a historic willingness to liberalize trade.

The outlines of both FTAs are very analogous, as they tackle the following four issues: First of all, the elimination of tariffs: 75% of the bilateral trade is currently subject to tariffs, which makes the potential for welfare gains quite sizeable. The most important issues to tackle are the high tariffs in the agricultural sectors (dairy) and industrial sectors (cars and electrical machinery). Second of all, the elimination of NTBs: The problem with Japan is that it has convoluted regulations. TBTs, SPS measures and export-related measures are found in the Japanese automotive, electrical, food, pharma and chemical sectors. The problem with EU is its quality control measures in the chemical, food and automotive sectors.

Thirdly, the liberalization of Trade in Services: This represents 71% and 69% of the EU's and Japan's GDPs respectively. The main issue here is the high protectionism in the Japanese services sectors (financial, telecommunications, maritime and air transport). Fourthly, the liberalization of the Public Procurement markets: these value over billions of euro (railway infrastructure, medical and academic institutions and air transport). The problem with Japan is its discrimination against foreign investors, and the problem with the EU is the difficult access to its regional and local markets for transport equipment.

A final point in common these FTAs share is that predictive studies have had positive outlooks in both cases, predicting net growth for the trading parties involved.

7. Discussion of the EU-JP FTA: lessons learned from the Korean experience

This chapter marks the final part of the analysis on the EU-JP FTA's prospects and which lessons from the EU-KR FTA can be applied to this case. This chapter will tackle specific research question 4:

3. *Which positive aspects of the EU-KR FTA can be applied to the EU-JP FTA and which negative aspects should be avoided?*

7.1. From an Economic to Strategic Partnership Agreement

The EU-Korea FTA was in itself an ambitious trade agreement that would tackle not only tariffs, but also tedious NTBs that have encumbered the bilateral trade between the partners. Its purpose differs from the traditional FTAs by going beyond matters of trade. It was hailed as a new milestone in the EU's FTA history and became an important symbol of the EU's goal of renewed involvement in Asia. Soon thereafter came plans for an FTA with Japan which would become the next important step towards that goal.

The choice to call the EU-JP FTA an Economic Partnership Agreement came at the behest of the Japanese government. The term EPA is merely considered to be a different way of naming an agreement that is by and large analogous to the EU-KR FTA. The European Commission (2017d) elaborates that the prospective agreement with Japan has expanded in scope since the initial negotiations in 2013 to such an extent that the appellation of 'Economic Partnership Agreement' is warranted, yet despite the usage of a novel name it has no legal implications in itself.

However, an even more important aspect of the EU-JP EPA that distinguishes it from the traditional FTAs is that both parties intend to accompany it with a Strategic Partnership Agreement (SPA). The first time the EU has undertaken such a target has been with South Korea in 2014, where it established the Framework Agreement in parallel with the EU-KR FTA (EEAS, 2016). According to the European External Action

Service (EEAS), the goal of the Agreement is to provide a legal framework that facilitates cooperation on, and a gradual harmonization of, policy positions on inter alia social affairs, the environment, development, human rights, and the fight against corruption and crime, (EEAS, 2010).

The SPA between the EU and Japan on the other hand is broadly similar. Its goal is to complement the economic cooperation between the EU and Japan under the EPA with an agreement wherein shared norms and principles make up its core. According to Federica Mogherini, the High Representative of the European Union for Foreign Affairs and Security and Vice-President of the European Commission, the SPA with Japan will take the bilateral relations between the two regions to a higher level by forming a legal framework that will assist with the alignment of both partners' long-term geopolitical strategies. Its scope is envisioned to encompass the same policy areas as the EU-Korea Framework Agreement (EEAS, 2017).

An important insight can be obtained regarding the role of FTAs in contemporary international politics. Each of the EU's newest generation of Free Trade Agreements can be seen as an essential part of a greater whole. Now, the establishment of an FTA appears to have become the first step for the EU towards the goal of building comprehensive and deeper partnerships with its trading partners. The contents of the SPA offer a glance into what a deepened partnership will look like. According to the EEAS (2017), the SPA will not be limited to bilateral issues, but will also deal with multilateral issues and its aim will be to contribute to the construction of an open international system. Furthermore, a Joint Committee will be set up over each SPA to ensure its desired degree of implementation.

7.2. Transparency

While the EU-KR FTA could finally come into force by 2011, its negotiation process was criticised to have proceeded with too much secrecy and insufficient stakeholder

involvement. Additionally, there is currently a strong backlash against the possible trade agreement with the US (TTIP) and even the signing of the trade agreement with Canada (CETA), a country that would be considered the least threatening of all to the EU, did not get signed without any difficulties. One of the main reasons for the palpable negative public perceptions with certain influential public interest groups is that whatever is discussed in FTA negotiations tend to be carried with absolute confidentiality, or in other words, in secrecy.

With the rise of mega trade agreements, the secrecy debate has taken up an increasingly important place in public forums. According to Watson (2015), both sides put forward compelling arguments, but the problem is that they tend to talk about different things, thereby going around in circles. With regards to the side arguing for increased transparency, the main arguments are that too much secrecy will only benefit interest groups who enjoy privileged access to the contents of these negotiations. Kaminski (2015) argues that a country's intention not to make public its most sensitive interest could only be taken to a certain length, since these agreements go beyond trade and concern crucial public issues like IPR and privacy laws.

At the same time the argument for confidentiality is not without merit. Murphy (2015) asserts that any negotiation implies that the outcome will be the result of a back-and-forth of compromises from both sides, and the key to make as little concessions as possible is to not lay bare all your cards, these being the country's important defensive interests. Although Watson (2015) acknowledges the importance of confidentiality, he also agrees that current FTAs impact various levels of society and that the input from civil society therefore must be taken into account.

The EU took into account the criticisms of its supposed lack of transparency during the aforementioned FTA-negotiations. In the negotiations with Japan, the EU put more emphasis on transparency. That is why the European Commission (2017d) explicitly

declared that with this agreement it “put transparency first”. Concretely, the European Commission kept all EU member states and the European Parliament informed on the progress of each negotiation round by publishing the reports thereof on its website. Finally, the July 6, 2017 announcement of the achievement of an agreement was also accompanied with the publishing of its provisional text.

7.3. The consequences of the Brexit and the US’ withdrawal from TPP

The UK leaving the EU has undoubtedly also influenced the negotiations for the EU-JP EPA. Just as was the case with South Korea, if the Brexit eventually does end up taking place, then that would mean that the EU’s market potential would be smaller for Japan as well. As was mentioned in section 4.4.3., a 17% decrease in market size would lead to less gains for any of the EU’s FTA negotiating partners. However, the difference with the EU-KR FTA is that the negotiations with Japan were still ongoing during the occurrence of the Brexit referendum and that the text of the agreement hasn’t been completed as of yet. Therefore, while the Brexit incident will influence the EU’s position in the trade talks, no post-FTA signing compensation costs will be demanded from the EU.

Nevertheless, the Japanese government has made it clear that it prefers seeing the Brexit not take place at all. Although Japan respects the UK electorate’s choice, it still urges for the UK and EU to come to an agreement that keeps the costs to a minimum. For instance, Japan’s Chief Cabinet Secretary Yoshihide Suga expressed his concern for Japan’s economic interests and businesses in the UK and hopes that the parties will arrive at an outcome that won’t have a negative impact on these. An even clearer message came from Kazutoshi Inano, Chairman of the Japan Securities Dealers Association, who warned that an exodus of international financial firms (including Japanese) might take place from London to continental Europe (Japan to urge Britain, EU to minimize Brexit impact on biz., 2017).

Yet with the onus of the Brexit situation being on the EU side of the negotiating table, a similar important incident has taken place on the Japanese side as well. Japan's negotiation position has namely been changed by the US' withdrawal from the TPP, whereby the future of the latter agreement has become all but uncertain. Japan was a strong proponent of the TPP, and with its apparent suspension, Japan might have felt the urge to compensate for this loss with a mega-trade deal with the EU. Therefore, despite the Brexit having possibly compromised the EU's negotiating position, the suspension of the TPP agreement has in turn made Japan more willing to reach a trade agreement with the EU, sooner rather than later.

Currently, trade experts are employing quantitative predictive models to assess the potential economic impacts of the Brexit and the TPP suspension. Kawasaki (2017) for instance, presents a predictive quantitative analysis, via a CGE model, on the impact of both developments on various international trade agreements. With regards to the EU-JP EPA, he estimates that the Brexit will cause Japan's expected real GDP gains to decrease by 15% in comparison to the situation without Brexit (p. 16). However, with regards to the TPP, the withdrawal of the US is expected to cause Japan's real GDP gains to decrease by 71% (p. 8), which explains the disappointment on the Japanese side.

	EU-JP EPA pre-Brexit	EU-JP with Brexit	Difference
Japan	0.26	0.22	-15%

	TPP	TPP11	Difference
Japan	0.24	0.07	-71%

Table 3: Real GDP gains under alternative Brexit and TPP scenarios (%)
(Kawasaki, 2017, p. 8, 16)

7.4. The TSD chapter and the dispute settlement mechanism

The principles of sustainable development are important to the EU and can be considered as part of its normative identity. That is why according to Binder (2016, p. 8), the EU takes up the task to include a chapter on Trade and Sustainable Development (TSD) in all of its new FTAs. Cecilia Malmström, the European Commissioner for Trade, explains that EU has been increasingly adapting its laws in the past few years to provide an adequate groundwork for its prospective TSD Chapters. The EU intends its TSD Chapters to deal with various issues related to the promotion of Sustainable Development in trade, among which are environmental laws and agreements, fishing regulations, and agricultural regulations (Malmström, 2016).

The first FTA wherein the inclusion of such a chapter was prioritised was the EU-KR FTA. However, as was mentioned in section 4.4.1., the EU-KR FTAs TSD Chapter still has shortcomings due to South Korea not yet having ratified all of the fundamental Conventions of the International Labour Organisation (ILO). Korea has only ratified half of the conventions, these being the Conventions on Discrimination and on Child Labour, while the Conventions on Freedom of Association and on Forced Labour are yet to be ratified. In comparison, Japan has ratified six out of eight ILO conventions²⁰ (ILO, n.d.), which will prevent blockages by the European Parliament from happening with regards to the addition of an investment chapter, as is the case with the EU-KR FTA.

This leads to an additional important difference with the EU-KR FTA, which is the set-up of a dispute settlement system. The point of such a system is to ensure the regulatory compliance of the partnering countries to the rules laid out in the reached trade agreement. An important part of the dispute settlement system is the settlement system for investment-related disputes. In contrast to what happened with South Korea, the

²⁰ For an overview of the ILO convention, see Appendix 1.

European Commission (2017f) has made its intention clear to include an ICS system in the EU-JP EPA from the outset (p. 6).

7.5. Evaluating specific research question 4

In light of what has been discussed in this chapter and in the preceding chapters, the following provides an answer to the fourth and final specific research question: *4. Which positive aspects of the EU-KR FTA can be applied to the EU-JP FTA and which negative aspects should be avoided?*

Positive aspects to emulate:

- Both FTAs are designed to strengthen the trade partners' **economic relations**.
- These FTAs are the first step towards the EU's larger goal of establishing **Strategic Partnership Agreements**.
- Both have **largely identical FTA outlines**: both FTAs have a corresponding elimination of tariffs and NTBs, and aim for a liberalization of both regions' public procurement and services sectors.
- Guarantee **strong trade performances**: bilateral export gains were proven in the EU-KR FTA case and are predicted in the EU-JP FTA.
- Increases in producer and consumer **welfare**.
- Boost in bilateral **investment** flows.

Negative aspects to avoid:

- The EU-KR FTA's shortcomings regarding its TSD Chapter (non-signature of ILO conventions) is an important aspect the EU-JP FTA should try to prevent. This was shown to be important to **avoid future normative conflicts** between the trade partners. A too hasty conclusion of the FTA negotiations will namely lead to a deadlock in its future advancement, as is the case with the EU Parliament's decision to block the inclusion of an investment chapter. However, in the case of the EU-JP FTA, Japan has signed the necessary ILO conventions,

thanks to which the door towards including an investment chapter in this FTA remains open.

- It is also advised to let the **ISDS vs. ICS debate** take place during negotiations to make early inclusion of dispute settlement system possible.
- The appearance of new **TBTs** after the enactment of the FTA: First of all, the EU-JP FTA should avoid including the Direct Transportation Clause that caused problems in the EU-KR FTA. This FTA should instead **use a Non-Alteration Clause**, which is more flexible to split shipments and puts a lesser burden on exporters. Secondly, the EU-JP FTA should also avoid post-FTA SPS measures, like the blockage of EU meat imports, which is happening in the Korean case (TradeWatch, 2013).
- Finally, the EU and Japan should avoid a **lack of awareness** concerning the FTA mechanism amongst **SMEs**. A possible solution would be to enhance cooperation from local public offices so that they may provide information on FTA regulations to SMEs, thereby increasing local awareness and hence fostering more benefits to these companies.

7.6. Evaluating the general research question

Finally, after going through each of the four specific research questions individually, this research now returns to the general research question with the insights it has gained thereof: **What lessons have we learned from the six-year-old EU-KR FTA that can be applied to the EU-JP FTA?**

Taking into account what we have seen in the preceding chapters, the answer to this research question can be subdivided into three distinct parts: (1) the lessons learned regarding the wider context wherein the FTAs take place; (2) the lessons learned regarding the content of the FTAs themselves; and finally, (3) the lessons learned regarding the negotiation processes of the FTAs.

Context:

- There is a clear rise in global scepticism against FTAs, whereby the rise of anti-free trade parties in Europe, the Brexit and the US' withdrawal out of the TPP are clear symptoms of a wider disapproval of trade liberalisation amongst the masses.
- With regards to FTA negotiations, an important debate is taking place whereby the merits and demerits of confidentiality versus transparency during the negotiations are weighed against each other. This is a direct consequence of a seemingly increasing worldwide discontent regarding free trade. In the EU's case, the parties arguing for more transparency have triumphed, the reason for which is mainly to appease the critics of FTAs.

Content:

- Both FTAs have a largely similar outline. In both FTAs, the main cornerstones are the elimination of tariffs, the elimination of NTBs, the liberalisation of public procurement sectors and the liberalisation of services sectors.
- However, the EU-JP FTA is expected to have a more robust Trade and Sustainability Chapter than the EU-KR FTA. It is also very likely that the EU-JP FTA will include an investment chapter as well as a dispute settlement mechanism, unlike its predecessor.
- Finally, both FTAs are part of a larger goal, which is namely the establishment of comprehensive Strategic Partnership Agreements between these regions.

Negotiation process:

- The Brexit might alter the EU's bargaining power, yet this should be put in contrast to Japan's increased impetus for a quick settlement of the EU-JP trade deal as a consequence of the US' withdrawal out of the proposed TPP.
- The higher transparency during the negotiations should lead to more input from civil society and less influence from private interests.

8. Conclusion

The European Union is proactively pursuing FTAs globally, and particularly in East Asia, as part of its strategy to stimulate its engagement in the region by means of what it calls a new generation of free trade agreements. The first of this new generation trade agreements was the EU-KR FTA, an FTA of unprecedented scale for the EU that was both ambitious in size and scope and is hailed to be a standard for the EU's future trade agreements. Soon after this FTA came into force, the EU made plans to pursue another FTA that would be even more ambitious than its predecessor: the EU-JP FTA/EPA. Yet despite the EU's ambitious movements towards establishing such mega-FTAs, these are taking place against a backdrop of an increase in scepticism towards trade liberalisation and free trade agreements, not only in Europe, but also globally.

This raises the question whether such FTAs contribute to an increase in aggregate economic welfare or not. That is why this research took on the task to answer the following general research question: *What lessons have we learned from the six-year-old EU-KR FTA that can be applied to the EU-JP FTA?* To answer this research question, the preliminary effects of the six-year-old EU-KR were first analysed in detail. With the introduction of the FTA, both regions have eliminated quasi all tariffs on the trade in goods and NTBs are progressively being taken care of, especially in crucial sectors such as the automotive, pharmaceutical, electronics and agricultural sectors. The FTA also enhanced access to the partners' government procurement markets and built an elaborate framework to protect IPRs. Consequentially, an immediate effect on the bilateral trade figures came to be whereby the bilateral trade between the parties increased to unprecedented levels.

Secondly, this research analysed the shortcomings of the EU-KR FTA. The agreement lacks completion due to it missing provisions for investment protection, or in other words an Investment Court System. The European Parliament has blocked this inclusion due to South Korea's lack of conformity to labour laws and the issue has currently come to

a standstill. Another point of contention is the emergence of new technical barriers to trade related to Korean SPS measures, issues with IPRs, and a lack of awareness of the benefits of the FTA with SMEs on both sides. All these issues leave the FTA unable to reach its maximum potential. Further issues are the Brexit, which leaves the role of the UK in the agreement in doubt. A departure of the UK will put South Korea in a position to ask for compensation since the EU's market size would be 17% smaller, and might lead the country to push for amendments to the agreement that would be more in its favour. Finally, the reversal of the bilateral trade balance in the EU's favour have lead some commentators to claim that the FTA is putting South Korea in a disadvantage. However, the evaluation of an FTA goes beyond merely the trade balance and the positive growth in both countries bilateral trade must not be ignored.

Thirdly, the EU-JP EPA was closely examined in order to derive its similarities with the Korean agreement. Similarly to South Korea, the choice for Japan came easy to the EU as they also have common ground in terms of normative principles regarding democracy, the rule of law, universal human rights and in being strong proponents of trade liberalisation. The outline of the prospective EPA is analogous to the EU-KR FTA. Again, particular emphasis is given on the elimination of tariffs, NTBs, and the liberalisation of the Japanese services and public procurement markets. With the negotiation phase nearing its end, studies have been made with the currently available data to predict the effects of the EPA. All studies have a positive outlook on the EPA estimating net growth in bilateral trade for both parties. This comes as a welcome change for the EU, which historically has a large trade deficit with Japan and embraces any growth in exports.

The final part discusses the lessons learned from the Korean experience that were applied for the EU-JP EPA. A first important insight that was gained is that the EU uses its new-generation FTAs as a stepping stone towards the building of comprehensive and more profound partnerships with its trading partners. The EU-JP Strategic Partnership

Agreement, which forms an umbrella over the EPA, shows that the EU's future trade agreements are not only limited to bilateral issues but that they also intend to work towards an open international system. Its aim is to provide a legal framework that facilitates cooperation on different policy domains, ranging from trade, to social affairs, development, the fight against crime and the environment. A second lesson the EU has learned is that it lacked transparency during the negotiations of the FTAs preceding the one with Japan. An important transparency vs. confidentiality debate is taking place with regards to these negotiations, but in order to appease the movements against trade agreements, the European Commission has decided to put transparency first and to publish as much of the negotiation process as is operationally efficient.

A third lesson that can be learned relates to Brexit. This time around, the Brexit will be taken into account during the negotiations, and rather than only the EU having a disadvantage during the negotiations, the apparent failure of the TPP can be utilised as a means on which to capitalise as Japan might have become increasingly keen to reach a landmark trade deal with any of the major economies. The last lesson relates to how the EU takes up the task to include a Trade and Sustainable Development chapter in its FTAs. This seems to have failed in the agreement with Korea due to the latter's shortcoming regarding labour laws. With the EPA, the EU intends to avoid a similar flaw by putting greater emphasis on it during the negotiations. In the same vein, the EU also intends to include an ICS system in the EU-JP EPA from the outset.

Contribution of this thesis:

The subject of this research is of essential importance for EU foreign policy considering the current changes in the global geopolitical order. The number of FTAs has grown exponentially since the breakdown of the WTO's Doha Development Round and many of the world's largest economies are aiming to set up bilateral and plurilateral FTAs with each other. Despite the abundance of research on the EU-KR or EU-JP FTA individually, there is no research currently available that specifically determines the parallels between

the two and that tries to take lessons learned from the former that could be applied to the latter. Furthermore, this research delivers insights into the influence the changing socio-political environment has on FTA negotiations. It also delivers insights into the EU's push towards increased involvement in Asia, and its intention to go from Free Trade Agreements to Strategic Partnership Agreements. Finally, this research has endeavoured to provide both an inside-out as well as an outside-in perspective on the matter at hand to avoid the flaws of taking up a restrictive Eurocentric view in its analysis.

Suggestions for further research:

A first suggestion for further research is to analyse the economic results of the EU-JP FTA a number of years after it goes into force. Such an analysis would complement this research's prospective approach with a reflective approach. Another suggestion for further research is to make an analysis on how the EU's increased transparency strategy impacts its negotiation position. The idea is to verify whether it has really led to more contributions from civil society, as was asserted, and whether the negotiations truly have been less influenced by private interests or not. A final suggestion is to make a specific analysis on the Brexit's impact on the EU's current FTAs and on the EU's bargaining power for its future FTA negotiations. The Brexit is not only of great importance for the EU, but also for the entire global trade network, and whatever the final outcome may be, it will shape the face of international trade for generations to come.

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10. Appendices

10.1. Appendix 1

There are four fundamental ILO conventions on international labour standards, which are each subdivided further into two specific conventions:

1. The Convention on Freedom of Association:

- C087 - Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)
- C098 - Right to Organise and Collective Bargaining Convention, 1949 (No. 98)

2. The Convention on Forced Labour:

- C029 - Forced Labour Convention, 1930 (No. 29)
- C105 - Abolition of Forced Labour Convention, 1957 (No. 105)

3. The Convention on Discrimination:

- C100 - Equal Remuneration Convention, 1951 (No. 100)
- C111 - Discrimination (Employment and Occupation) Convention, 1958 (No. 111)

4. The Convention on Child Labour:

- C138 - Minimum Age Convention, 1973 (No. 138)
- C182 - Worst Forms of Child Labour Convention, 1999 (No. 182)